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UNDERSTANDING SMALL SCALE INDUSTRIAL SECTOR IN INDIA



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Short Profile

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**ABSTRACT:**

Global experiences on growth and development for any economy lay prime emphasis on industrialisation and employment generation. And a developing country, like India witnesses its employment growth not only by large scale industrial units but also by resource mobilisation via smaller ones.

This non-technical article aims to scrutinize the economics behind this small scale sector in any country. This aims at altering a general discernment of the sector deficient research base. The answer to such a superfluous thought lies in the economic finding for various issues in the sector. The scheme of

the article is designed in the manner that initially it provides a brief about small scale industrial units, its features and importance in a country. The next section talks about the problems they face and their answers based on economic thoughts, government planning and policies. Then the article in its concluding segment raises some challenges to be faced by the sector in 21st century and its contributions to the development process so far.

**KEYWORDS**

*Global experiences , industrialisation and employment generation.*

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## INTRODUCTION

Industrial economy in India has been divided into small or medium enterprises and large-scale industries depending upon the level of investment made, number of people employed, management pattern, magnitude of output and other managerial skills.

While small and medium enterprises or small or medium- sized enterprises (SMEs, small and medium sized businesses, SMBs) are the companies whose personnel numbers fall below certain limits. The large scale industrial units are the ones which undertake large scale production by employing large number of labourers, use of highly mechanized machines and tools, latest technology and advanced managerial abilities.

The abbreviation 'SME' is used in the European Union and by other international organisations such as the World Bank, the United Nations and the World Trade Organisation. In developing countries, small enterprises outnumber the large counterparts by wide margins and are considered to be the engines of innovation and competition in many economy sectors.

## SMALL-SCALE SECTOR IN INDIA

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:

**(a) 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 Enterprise are defined in terms of investment in Plant & Machinery.

**(b) Service Enterprises:** The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

The limit for investment in plant and machinery / equipment for manufacturing / service enterprises, as notified, vide S.O. 1642(E) dtd.29-09-2006 are as under:

<b>Manufacturing Sector</b>	
<b>Enterprises</b>	<b>Investment in plant &amp; machinery</b>
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
<b>Service Sector</b>	
<b>Enterprises</b>	<b>Investment in equipments</b>
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 core rupees

About 85 per cent of industrial units in India belong to Small and Medium Enterprise group which accounts for about 75 per cent employment of the total workforce. Also, the sector contributed about 45 per cent of the national GDP. That apart, they play a vital role in nation-building and in providing vast employment, helping develop skills, whereby unskilled labour can become skilled, producing over 8,000 industrial products, driving growth in India's exports, and in developing entrepreneurship amongst the younger generation.

The use of word "small" in classifying the types of industries differentiates it from the rest. These industrial units have their unique problems due to their small scale of operation, employment, capital, technology, products, management, etc. These small industrial units, especially in manufacturing sector are projected to face a unique set of problems due to their 'smallness' in relation to medium and large manufacturing units. At the same time, the small sector offers several advantages on account of efficiency and reliability.

### CLASSIFICATION OF SMALL-SCALE INDUSTRIES

Small-scale industries may be broadly classified into modern industries comprising powerlooms and traditional industries. Traditional industries further include khadi and village industries, handlooms, handicrafts, coir and sericulture.

#### •Powerlooms

The clothing needs across Indian geographical boundaries are largely met by powerloom sector. It contributes about 54 per cent of the total cloth production excluding the cloth produced by non-SSI, weaving and hosiery/knitting units, as per Annual report of the Ministry of Textiles 1997-98, presented on December 31, 1997; there were 15,23,336 powerloom units in the country. The sector manufactured about 10 billion square meters of cloth in 1996-97 thereby employing about 7.08 million people. Since the sector saw rising export share, Government increased the export quota of fabrics and ready-made garments for powerloom units in 1997 [exporting to quota countries covered by the Multi-Fibre Agreement (MFA)].

The Textile Commissioner handles about 13 powerloom service centres and 32 power loom service centres under the Textile Research Associations/ State Government Agencies. These centres undertake training of workers, testing samples, developing new design and other such important activities. The subsector is assisted and governed by the Textile Commissioners in the Ministry of Textiles. Powerlooms must seek approval on account of their production capacity before installing machinery for weaving textile cloth. The Textile (Development and Regulation) Order, 1993 directs every prospected entrepreneur in powerlooms to file an information memorandum with the authorized officer. Currently, NCAER is responsible to compile data for powerloom census.

#### •Traditional Industries

**(i)Handicrafts:** Handicrafts include production of consumer articles and decorative items produced using traditional skills of artisans on wood, metal, clay, ivory, cloth, etc. Recent definition of handicrafts refers to only artistic and decorative articles. The All India Handicrafts Board is responsible for the

development of this industry, while the Handlooms and Handicrafts Export Promotion Corporation promotes exports from this subsector. According to Annual Report of Handicraft Board, the industry holds an important place in the economy because of its foreign exchange earnings and employment potential of about 7.6 million people. It is the State Government which is responsible for promoting handicrafts industry. The central level schemes for the sector are directed by the Development Commissioner (Handicrafts). Some of the important produce from the sector include hand knitted carpets, printed textiles, art metalwares, cane and bamboos crafts, woodwares, etc. The main items demanded in world market from the sector comprise zari and zari goods, art metalwares, hand printed textiles, scarves and hand embroidered/crocheted goods.

**(ii) Handlooms:** Handlooms hold an important place in India's heritage. They are a symbol of richness and artistry of the weavers residing in the country. The sector has been stated as the largest employer providing employment to more than 3.0 million weavers and 12.4 million others by Annual Report of the Ministry of Textiles 1997-98. About 23 per cent of the total manufactured cloth came from the sector in 1997-98. The hand weaving of cloth from yarn (produced by the mills) forms an important segment of rural industry with respect to geographical spread, employment and exports. The Development Commissioner (Handlooms) in the Ministry of Textiles at the centre and separate Directorates in most of the states are responsible for development of handloom sector. These offices promote handloom industry and NCAER compile data for the same. The Handloom (Reservation of Articles for Production) Act 1985 aims at protecting the interest of weavers. The article reserves 11 textile articles for exclusive production by handloom units (as per the Government Notification dated July 26, 1996).

**(iii) Sericulture:** India stands at a second position in silk production across the world. The four main varieties produced in the country are mulberry (91.7 per cent), eri (6.1 per cent), tasar (1.6 per cent) and muga (0.6 per cent). Sericulture is an agro-industrial activity providing livelihood to about 6 million people in rural and semi-urban areas. The sector observes wide women participation. The main areas where the sector is concentrated are Karnataka, Andhra Pradesh, Tamil Nadu, West Bengal, Madhya Pradesh, Jammu and Kashmir, Uttar Pradesh, Assam and Odisha. A board called The Central Silk Board was set up by Ministry of textiles to look after the development of the sector. The Board works to provide training extensions and seed support to producers.

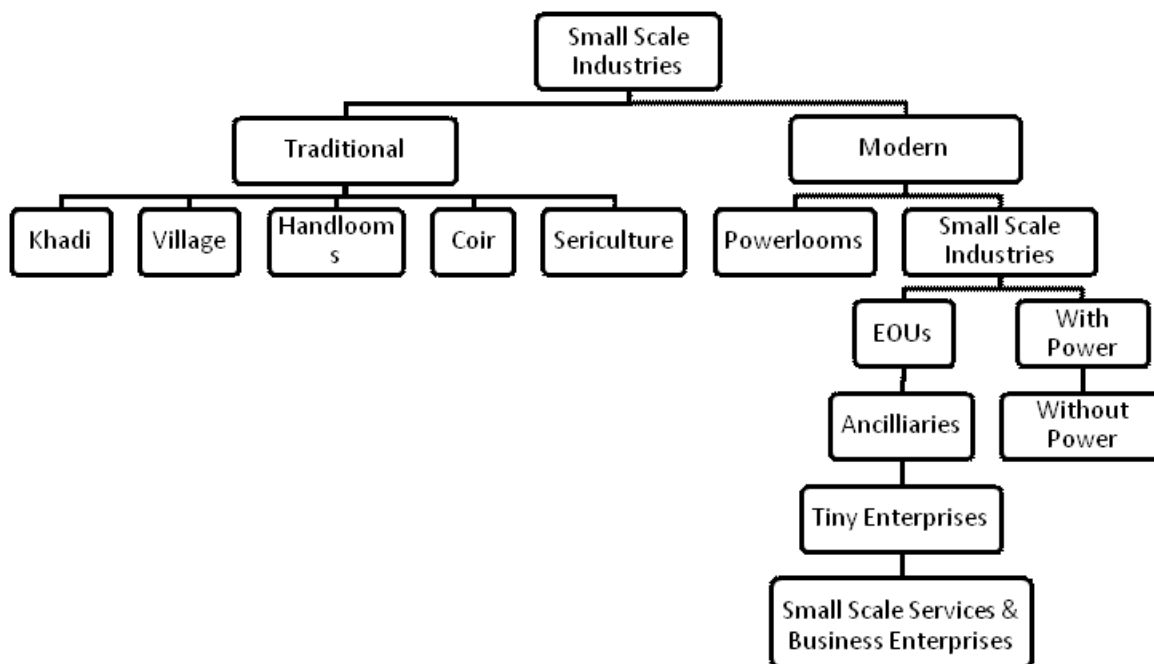
**(iv) Coir:** Coconut producing states in the country observe an important traditional industry called coir. It is obtained from coconut husk, involves operations like netting, spinning and weaving. The coastal districts of Kerala, Tamil Nadu, Karnataka, Assam, Goa, etc. have observed development of this industry. The Coir Board, under the Department of Small-Scale Industries and Agro and Rural Industries, Government of India works to improve the quality of coir products and promote exports.

**(v) Khadi and Village Industries:** Khadi is hand woven cloth produced from spun yarn. Khadi and Village industries Commission take care of the sector along with other specific village industries such as food processing, forest based raw materials and other manufactured goods. These industries primarily involve unskilled and semi-skilled rural artisans and women workers. It is one of the most important employment generating sector in Indian rural and semi-urban areas

### SSI Units

SSI units in the country are found to observe the following forms:

- (i) Small scale industrial undertakings
- (ii) Export-Oriented SSI units
- (iii) Ancillary Industrial Undertakings
- (iv) Tiny Enterprises
- (v) Small scale services and Business enterprises, and
- (vi) Powerlooms



### SSI UNITS IN INDIA

#### Role of Small Enterprises in an Economy

Developing countries may witness rapid pace of industrialization by focusing on the small-scale sector. Countries with scarce capital and large number of labours, like India may derive special benefits from low capital intensive and high employment generating potential of the sector. Besides, the sector leads to widespread dispersal of industries because of the inbuilt location flexibility. Also, the sector mobilizes the indigenous entrepreneurship and savings lying dormant, particularly in semi-urban and rural areas.

The sector rests high potential for employment generating, dispersal of industries, promoting entrepreneurship and earning foreign exchange to the country. The following points will bring out the importance of small-scale industries in any country:

(i) **Small is Beautiful:** E.F. Schumacher said, "Small is beautiful". He maintains that man's current pursuit of profit and progress, which promotes giant organizations and increased specialization, has in fact resulted in gross efficiency, environment pollution and inhuman working conditions. Schumacher emphasis on small working units, communal ownership, and religious workplaces utilizing local labour and resources. For him, emphasis should be on person and not on product.

(ii) **Innovative and Productive:** Even though small units do not maintain their own research and development department, they are the ones to introduce high level of innovative elements in the markets "... a disproportionate share of innovation success in business seems to come from 'skunk works', tiny groups that tend to outperform the much larger labs that often have a cast of hundreds."

(iii) **Individual Tastes, Fashions and Personalized Service:** Small firms quickly alter their production process and production in line with changing tastes and fashions of consumers.

Small firms are found to have an upper hand in industries that calls for personalized service, attention to details and flexible structure which is adaptive of changing business and technological environment. For instance, garments and television industry have seen large number of small units which deliver better results than those of having large organizational set up which becomes rigid to modify with changing patterns. A garment exporter says, "... the garment business is personalized, oriented to changing fashions and has to be tightly controlled. Professional management does not have motivation for all this. And most people in the electronic business agree that big firms have so far had limited success because of their lack of flexibility."

(iv) **Symbols of national identity:** Small businesses, in general are found to have a local ownership and control. In a way, they work to strengthen extended family and other social systems and cultural traditions which are seized to be valuable in their own right as well as symbols of national identity.

(v) **Happier in Work:** Small enterprises introduce an element of belongingness to the workers. This makes them happier to associate themselves with the units inspite of lower wages and poor standards of safely, comfort and welfare activities.

(vi) **Always Winners of the Game:** Last decade of business boom in India has witnessed small businessmen and new entrepreneurs as fore runners in every field including computers, television sets, consumer electronics, garments, diamond exports and advertising. Large industrial houses have also faced strenuous conditions due to the aggressive nature displayed by these units in seizing business opportunities and catering markets.

(vii) **Wide Dispersal:** Small scale units have shown tendencies to disperse over wide areas. According to Second All-India census of small scale units, 62.19 per cent of the units are located in backward areas.

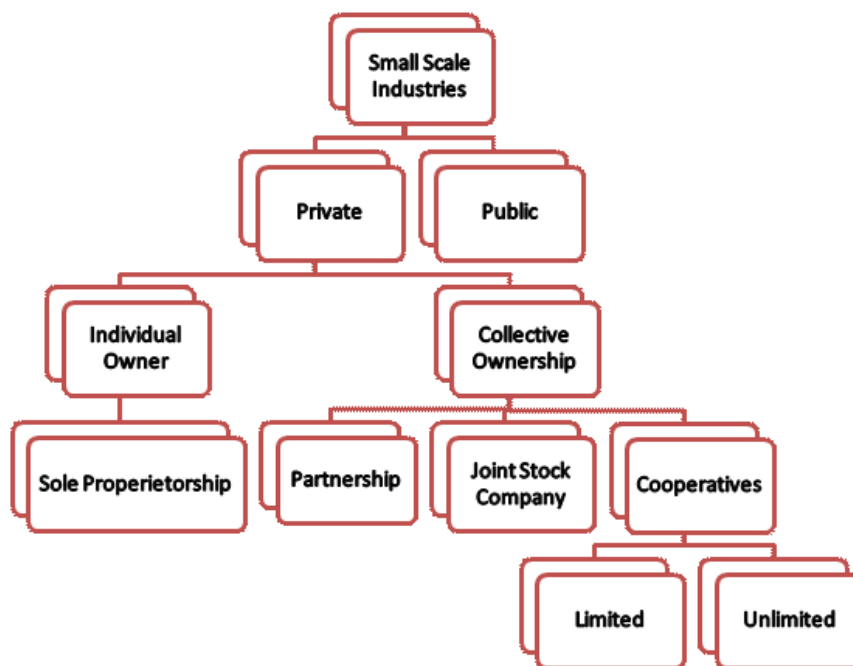
Small-scale industries hold an important place in bringing about industrialization in developing countries. This is because they provide immediate large-scale employment and have a comparatively higher labour-capital ratio; they need a shorter gestation period and relatively smaller markets to be economic; they need lower investments, offer a method of ensuring a more equitable distribution of national income and facilitate an ensuring a more equitable distribution of national income and facilitate an effective mobilization of resources of capital and skill which might otherwise remain unutilized; and they stimulate the growth of industrial entrepreneurship and promote a more diffused pattern of ownership and location.



Organizational Structure of Small-Scale Industry

While organizing a small-scale industry, an important question is that of its ownership. Ownership of an organization talks about the representation of the rights on an individual or a group of individuals to acquire legal assets in order to control industrial operations and enjoy profits or gains through such activities.

Generally, people valuing independence and desirous of higher rewards for their initiatives, innovation, technical skills, business activities and experience are the ones to venture into small industrial units. According to Nihal Singh, "The owner of a small industry values his undertaking for the job it provides him as well as for any return it may make on his invested capital".



OWNERSHIP PATTERN OF SMALL SCALE INDUSTRIES IN INDIA

The chief forms of an ownership organization in a small scale industry are:

**(i) Sole Proprietorship:** The sole proprietor is an unincorporated business with one owner who pays personal income tax on profits from the business. With little government regulation, they are the simplest business to set up or to participate, making them popular among individual self contractors or business owners. There is no separate legal entity created by sole proprietorship, unlike corporations and limited partnerships. Consequently, the sole proprietor is not safe from liabilities incurred by the entity. The debts of the sole proprietorship are also debts of the owner. However, all profits flow directly to the owner of "sole proprietorship"

**(ii) Partnership Organization:** A partnership organization is a business firm where two or more individuals enter into a partnership deed, which is a legal document defining the controls, rights, profit

sharing ratio and other such important aspects of different partners. A partnership firm is registered and functions in line with guidelines given by Partnership act. The firm is considered to be a separate legal entity than that of its members.

**(iii) Cooperative Firm:** Profit making is the primary objective to set up any firm under sole proprietors, Joint Stock Company or partnership organization. However, a cooperative business firm is set up from the welfare objective of consumers instead of profit maximization. The cooperative form of organization is a democratic set up run by its members for serving the interest of themselves against the practices adopted by businessmen to serve his personal interest even at cost of consumers. Hubert Cavalory says, "Cooperation is a form of organization wherein persons voluntarily associate together as human beings on the basis of equality for the promotion of the economic interest for themselves."

**(iv) Joint Stock Company:** A Joint Stock Company is a business entity which is owned by shareholders. Each shareholder owns a portion of the company in proportion to his or her ownership of the company's shares (certificate of ownership). This allows for the unequal ownership of a business with some shareholders owning a larger proportion of company than others. Shareholders are able to transfer their shares to others without any effects to the continued existence of the company.

All the above mentioned forms of organization fall in the category of private participation. There are few small scale units which fall in the purview of public ownership, which are generally owned, operated and controlled by state governments.

### Scope of Small Business Units

The importance of small-scale enterprise is a global phenomenon encompassing both the developing and developed countries. Normal Mc Rae (1979) predicts that the age of mammoth corporation was over and the future lay with small, dynamic, efficient production groups that could respond quickly to customer needs. Globally, the emphasis is on the small enterprises holding the key to growth was equity with proficiency.

In India, small industry refers to manufacturing activity. Recently, it has also come to include, to a limited extent, servicing activities such as repair and maintenance shops and few community services. It does not include wholesale and retail trading as is done in Japan or UK.

It cannot be neglected that small industries are the engines of growth in any country. This is the sector which shoulders the responsibility of generating employment and innovating technology. Small is beautiful, efficient, innovative and creative where pursuit for progress is endless and growth is their way of life. Small industrial units contribute about 45 per cent of industrial production, 65 per cent of services, 80 per cent of employment generation and 35 per cent of India's exports.

### Role and Performance of Small and Medium Business Enterprises in India

The definition of small scale industries has been changing considerably over the planning period in the country. Post 2006-07, medium enterprises have also been included in the sphere of small scale industries. Hence, evaluating the performance of the sector is not a very easy task. However, some idea about it may be made from the following discussion

### • Industrial production and Expansion of SSI sector

There were about 109.5 lack units in SSI sector in 2002-03. It comprised of about 16 lacks registered and 93.5 lacks unregistered units. The number of units in the sector increased to 133.68 lacks by 2007-08. The output from the sector saw an increased to Rs. 532979 crore from just Rs.306771 during the same period. The output in the sector grew at a rate more than 12 per cent in 2005-06, 2006-07 and 2007-08. As per fourth census of SSI units conducted in 2006-07, which included the information on medium enterprises, "there were about 260 lack Medium, Small and Micro Enterprises (MSMEs) in the country and contribute about 8 per cent of GDP and about 45 per cent of the manufactured output."#

### • Employment Generation

There were about 263.7 lack people employed in the SSI sector in 2002-03. This number shot up to 322.28 lacks in 2007-08. However, the number jumps to 600 lacks if people employed in MSME sector are also included in it. This means, about four-fifth of the total employment in the manufacturing sector is due to small scale industries. To shaft the chronic problem of unemployment in India, development of small scale and cottage industry is mandatory. This is clear from the fact that while employment in factory sector as a whole (large scale, medium scale and small scale) increased by only 2.21 per cent per annum over the period 1972 to 1987-88, employment in small scale sector grew at the rate of 5.45 per cent per annum. Focusing on the future prospects of the sector, about 22 per cent of rural non-farm employment can play a significant role in further expansion of employment opportunities in the country. An important constituent of this sector is the manufacturing activity consisting mainly of textile based and agro based products and units producing construction materials. In the urban areas employment potential seems to be the largest in the non-household, tiny sector segment of the manufacturing sector. Overall, it has been estimated that labour intensity in the micro and small enterprises sector is almost four times higher than the large enterprises.

### • Efficiency in Small scale industries

There has been an ongoing debate on the level of efficiency in small scale industries vis-à-vis large industries in India. While some of the studies point small scale industries to be more efficient, the others are in favour of large scale ones. Dhar and Lydall were one of the earliest researchers to study the relative trends in efficiency for small scale industries. They were of view that modern small scale industries in India were fairly capital intensive. Hence, these units do not generate more employment per unit of capital than large scale industry. Other researchers also concluded similar results wherein they concluded that with a given level of investment, small scale units neither produced more output nor generated more employment when compared to the large units. Even some of the industries concluded that small industries operated at low level of labour productivity, high capital productivity, low capital intensity and low total factor productivity. Hence, it may be inferred that small scale units are inefficient relative to large sector in numerous industries.

However, there were some studies which rejected the proposition that large scale industrial units are more efficient than the small scale industries. For instance, Ramsinh K. Asher based his

research on the data presented by Annual Survey of Industries for 1960, 1963, 1964 and 1965. The conclusion of his research showed small scale industrial units to be more efficient than that of large scale units. He depicted the small scale factory combined the largest number of workers with a rupee's worth of fixed capital; that a rupee worth of fixed investment in small factories was at least three times as large as that for a large factory. Also, another study conducted by IDBI in 1999 revealed that the small scale sector contributed about 35-40 per cent of the total employment in industrial sector by investing only 15 to 20 per cent of the total manufacturing sector's capital. However, in the period 1980-81 to 1994-95, labour productivity was revealed higher in large sector and capital productivity was higher in the small scale. As per the study, "the estimated relative total factor productivity based on a trans-log production function of small scale industries during the period 1980-81 to 1994-95 is greater than one in all year excepting 1987-88 when it was 0.53 suggesting that at the All India level, the small scale sector is more efficient than the large scale sector.

Employment generation is another important aspect that needs attention in the labour abundant country like India. According to Third All India Census of Small Scale industries, 2001-02, small scale sector is a better employment generating sector in the country. It generated about 1.39 employments against 0.20 in large manufacturing sector on undertaking investment worth one lack. In simple language, it means that the large sector requires an investment worth Rs.5 lack to employ an individual. However, the small sector will be able to accommodate about 7 people with the same level of investment.

### •Equitable approach of Small Scale Industries

One of the most important features of the small scale industries is the equitable approach in distribution of national income and wealth. This is widely accomplished due to two considerations:

- (i) Small scale industries are more widespread than that of large units in different regions of the country.
- (ii) Small scale units employ relatively larger number of people than that of large scale sector.

However, some economists in the country have regarded this argument to be vague. They based their view on the proposition that wages paid to workers in the small sector are much less than that of large sector. The workers in the sector are mostly unorganized. Hence, they lack the ability to fight for their rights. As a result of it, an inequitable distribution of income and wealth is observed due to widespread operation of small scale units. However, this view point ignores the second aspect of SSIs mentioned above. Considering the sector provide greater employment opportunities to labour, in case of shut down of these units the labourers are left unemployed.

### •Capital Mobilization and Entrepreneurial skills

Since the small scale units are spread across the entire length and breadth of the country, they are found to have a distinct advantage in terms of capital mobilization and entrepreneurial skills. Savings done by people in areas other than towns or cities are channelized only through a well developed network of small units. Large scale units are unable to mobilize these savings. Besides savings, many other unutilized resources are put to use by the operation of these units in the small scale

sector. This fact can be clearly brought out by the expansion of necessary credit, power and technical knowledge that has been widely spread in the country due to developed small scale sector in the post independence period.

### •Lesser Industrial disputes

The production in the large scale industries is generally found to be obstructed on a regular basis. This obstruction is a result of tensed relations between the mill owners and employees that lead to frequent strikes and lock outs. On the other hand, the small scale sector is found to face less of these hazards. However, this argument may not be regarded as completely correct. In the capitalistic form of industrial set up, workers are generally exploited. Since they are not organized properly, they cannot express their resentment towards undue behaviour of the owners. This leads to tensed employer-employee relationship leading to relatively larger number of industrial disputes in the sector.

### •Regional dispersal of industries

Large scale industries in the country are generally found to be concentrated in few cities of some states. Consequent upon that, labour migration in large numbers are witnessed from villages to these cities for industrial development. This, in turn swells the size of slum dwellers in these areas thereby creating numerous social and personal problems. Contrariwise, small units are established to address the needs and desires of local areas. Hence, they play a vital role in making these semi-urban and rural areas self sufficient in industrial demands to a large extent. These units may be very useful in providing a source of income and employment in rural and semi-urban areas.

### •Contribution to export

The export earning through modern small scale units have increased substantially in the post independence era. An interesting feature of export commodities from these units is that a significant portion, about 93 per cent of these exports consist of non-traditional items like ready-made garments, sports- goods, finished leather, leather products, woolen garments and knit wear processed foods, chemicals and allied products, and a large number of engineering goods. Presently, about 40 per cent of exports of the country come from MSME sector.

## Government Policy Support to promote Small Scale Industrial Sector in India

Building upon the problems faced by units in the small scale sector, the Government of India undertook certain measures to assist these units. These measures may be understood in two broad heads, viz., Institutional structures and Assistance programmes.

### •Institutional Structure

It is the responsibility of the state to provide for development in small scale industries sector. The nodal agency for implementation of various assistance programmes for SSI sector is the State

Director of Industries. It is the director who undertakes measures for development of the sector through his team of regional and district officers. Along with it, a range of central and state level institutions also work to look into different aspects of developmental programmes.

The Central Ministry of Industry appoints the Development Commissioner (Small Scale Industries), who head the Small Industries Development Organization (SIDO) to formulate policies, coordinate and monitor the development of SSIs. It also seeks to provide technical, economic and management consultancy services to small entrepreneurs through a network of 27 small industries, service institutes (SISIs), 31 branch institutes, 37 extension centres, 18 field testing centres and a number of training and production centres. The National Small Industries Corporation (NSIC) is another central agency which basically works to provide machinery to small enterprises on a hire-purchase basis. It also promotes schemes to supply raw materials and components to small enterprises along with assisting them in marketing their products. State governments have also set up their own State Industries Corporations in order to provide for development of the sector. Various All India and State level institutions like All India Handloom Board, the Khadi and Village Industries Commission, the (Central) Handlooms and Handicrafts Board, the Central Sick Board and the Coir Board, etc. have been set up primarily to target cottage and traditional industries.

### •Assistance Programmes

There are various assistance programmes that have been initiated to develop SSI sector by Government both at Central and State levels. These programmes include both positive and negative measures.

### Positive Measures

#### (a)Technical Assistance

There is a big room created for Government's assistance in terms of technology and management for small scale sector on account of inadequate managerial and technical expertise inbuilt in them. Technical assistance to these units thus, involve identification of new lines of production, provision of operational schemes indicating therein the details of production techniques and equipment required, assistance to plant and machinery installation and timely solution for various production problems. Besides performing these extensive tasks, institutes set up especially for development of small scale sector also organize common workshops and prototype and production centres to undertake specific manufacturing processes and production of prototypes and machine tools, respectively for the small scale industries. Training programmes are also conducted for entrepreneurs, managers and workers. In 1993, a scheme covering three major areas was introduced in order to promote the adoption of clean technology by small firms. The areas covered under the scheme were: reduction of waste and pollution from manufacturing process; recycling; collection, storage and processing of industrial and household wastes for re-use, and effluent treatment and disposal. Another project was undertaken by United Nations Industrial Development Organization on similar lines. This primarily focused at reducing the colossal amount of waste generated by small scale industries. In order to improve upon the standards of quality of SSI products, a quality certification scheme was introduced

in 1994. SSI units, under the scheme were granted assistance through financial support and awareness programmes on account of acquiring ISO 9000 or similar international certifications.

Specialized institutions and commodity boards provided assistance in technology in terms of design development and improved production methods to traditional cottage industries. KVIC also conducted special training programmes for supervisor, managers, technicians and artisans in khadi and village industries. Similarly, artisans in handicraft, sericulture and coir sector also attended such training workshops. The Council for Development of Rural Technology (CART)- now renamed as CAPART (Council for People's Action and Development of Rural Technology)- acts as a nodal point for the coordination of all efforts for the dissemination of technology relevant for rural areas.

### (b) Physical Facilities

Small scale entrepreneurs receive developed basic infrastructure facilities such as power, water, transport, etc. through the Industrial Estate Programme which initiated its operation in 1955. The main objective of the programme is to promote industrialization in backward areas and to provide the benefits of economies of scale to industries in production process. A scheme to provide assistance for developing industrial areas has also been introduced by SIDBI. The scheme works for extending assistance to bodies working to develop SSI sector such as State Small Industries Development Corporations, State Infrastructure Development Corporations, etc. Schemes to develop backward areas will be accorded priority in the programme. NABARD also launched a District Rural Industries Project in Mid 1993. The Project envisaged creating an environment and infrastructure conducive to increased production and opportunities for income generation by establishing commercially viable units in the rural sector. Alongside, about 1000 rural technology parks were developed to provide for infrastructure development in village through a mega plan.

### (c) Financial assistance

It is difficult for small firms operating on small scale to raise loans from markets. Also, these units are generally constrained with limited capital. Understanding the difficulties faced by the sector, Government has accorded priority to the sector in extending credit by financial institutions.

Learning from the experience of reluctant attitude of commercial banks to provide credit to small entrepreneurs, the loans provided by banks to State Industrial financial corporations is also included in priority credit. These financial corporations use these funds to extend credit to units in SSI sector. Also, commercial banks have been motivated to provide for medium term loans to these units in order to meet their working capital needs. The loans to the sector through commercial banks are provided at concessional rates. Hence, a policy of differential rates of interest has been adopted by commercial banks.

Most of the financial needs of cottage and village industrial sector are fulfilled through budgetary resource from the government. These resources from the government are channelized through the specialized institutions developed to promote specific industries. The Reserve bank, through its cooperative banking system also provides credit to handlooms and other traditional industries.

Small Industries Development Bank of India, SIDBI was set up in 1990 in order to promote, finance

development of industries in small sector, and coordinate the functions of institutions engaged in promoting small units. It is an apex All India financial institution with its 25 offices in different states. The equity worth of the institution at the time of its introduction was about ` 250 crore.

### (d) Supply of raw material

As noted in problems of SSI sector, units in the sector are constrained with unavailability of raw materials to undertake productive activities. To help the sector on this front, the State Small Scale Industries Corporations have been delegated the responsibility to distribute these scarce raw materials in different parts in each state. However, the system brought with itself the inbuilt limitation to accord priority to relatively efficient firms. In order to provide for uninterrupted supply of raw materials to small scale sector so as to have a break free production process, the government has recently launched a scheme to create buffer stock of these key raw materials. This buffer stock will act as an insurance against their sudden supply disruption and consequent loss of industrial production.

### (e) Marketing assistance

Since units in small scale sector are capital deficient, no attention is paid to market the produced products. Government assists the units in marketing their products in the following ways:

- (i) Exclusive purchase of SSIs products by the government.
- (ii) Differential pricing policy followed which provides preference to small scale enterprises in public sector purchases.
- (iii) Provision of quality control and testing facilities with a view to increase the competitiveness of the products through small scale units.
- (iv) State owned cooperatives and other assisted cooperative societies have opened sales emporia in order to assist products from the sector.

In order to gather information on areas where both large and small sector units work in partnership, a sub-contract exchange for SSIs has been set up recently. A consortium for small scale units has been set up which is entrusted with a responsibility to channelize and identify markets for SSI's products in India and abroad. Also, it is the responsibility of consortium to ensure the quality of products as per international standards. Also, the consortium would provide for proper infrastructure and distribution system along with timely payment to the sector against the supply of goods.

Also, Government has undertaken high expenditure to provide for obtaining ISO and ISO 9000 Certification to meet international standards of quality.

### (F) Direct Industries Centres (DICs)

The scheme for DICs was introduced in May, 1978 to provide a "focal point" for development of small industries. The main object to set up these centres was to develop modern small scale units and provide institutional set up for traditional cottage industries. The DICs were responsible to provide for all the services and support at pre-investment and post-investment stages including assistance on raw



materials, credit, marketing, training, etc. These centres work as an intermediate party between the developmental blocs and specialized institutions and small scale enterprises.

### (g) Fiscal incentives

Numerous fiscal incentives have been provided to small scale industries by governments both at centre and state level. Some of them may be numbered as:

- (1) Tax holidays for new industrial undertakings.
- (2) Capital subsidy to industries in backward areas.
- (3) Investment allowances.
- (4) Price preference of 15 per cent over medium and large enterprises.
- (5) Excise duty exemption, etc.

### (h) Other Schemes

Some special programmes have also been introduced by government along with the above mentioned programmes of general nature. For example, Rural Industries Projects (RIP) and Rural Artisan Programme (RAP) have been implemented to disperse small scale enterprises in backward areas in order to ignite the developmental process in these areas. The programmes provide subsidiary occupation to small and marginal farmers by upgrading their skills and use of improved tools and equipments. Another scheme introduced by Government for development of backward areas was development of ancillary units around large scale industries in order to produce raw material for them. However, arguments have been place both in favour and against the scheme. While some argue that development of such units would make artisans highly dependent on the parent company. Others have considered development of such ancillary units nodal agent to bring about industrialization in backward areas.

### Negative Measures

- (a) The most important of the negative measures adopted by Indian government is the policy of reservations of the product lines. The number of reserved product brought down to 21 from about 873. However, the reservation policy of the government could not deliver the projected results. It could not improve upon the quality and technology of the products in SSI sector. Hence, with introduction of New Policy for Small Sector in August, 1991, big industries were allowed to float small firms by holding about 24 per cent share and manufacture reserved products. Likewise, the government has allowed enhancement of capacities through investments in plant and machinery in all the reserved areas, provided the additional investments generate incremental exports of 50 per cent of the total turnover with effect from February 7, 1997 as against the requirement of 75 per cent stipulated earlier. This will formally do away with the policy of reservation.
- (b) The capacity in a few large industries had been pegged at the exiting level, so as to augment labour-intensive development in the small sector.
- (c) Another negative measure is the Government's decision not to give industrial licenses to new

industrial units within the limits of large metropolitan cities having population of more than 1 million so as to promote dispersal of industries to the less congested areas.

(d) Likewise, the Government has decided to reserve purchase of a number of items by the public sector exclusively from the Khadi and Village Industries and small scale units. The goods of the KVI would be given preference over the private sector goods in buying or selling of goods from the public sector.

### Major Problems of Small Scale Industries in India

Small business units as compared to their large counterparts suffer from many inherent weaknesses. Although small units are relatively more flexible, they are highly vulnerable to set backs of any kind. A small unit enjoys the personal touch, but, in return, the entrepreneur has to be an all-purpose manager constantly hurried by crises after crises. Apart from these issues, there lie other fundamental weaknesses in the sector as well.

An entrepreneur has to constantly deal with problems present in business units. There is a chain of problems faced by entrepreneurs, especially the ones operating at small level. There are problems while establishing a unit, then problems confronting him when the enterprise is alive and kicking. In case it turns out to be sick, another set of problems start.

#### 1. External v/s Internal

The problems confronted by industries may be divided into external and internal. As the name suggests, external problems include all those crises faced by a business unit which result from factors beyond the control of the entrepreneur, for instance regular supply of raw material, power and other infrastructural facilities is a must for smooth functioning of business units. While internal problems are those which are not affected by external influences. These relate to problems affecting the industries related organization, structure, production channel, distribution channel, technical know-how, training, industrial relations and inadequacy of management, etc. Both external and internal problems may not be regarded as mutually exclusive but correlated to each other.

Both organized and small-scale industrial units face similar set of problems. It is just that the large units possess immense financial resources to effectively combat these troubles. On the other hand, the resources of small-scale sector are limited due to their weak financial base. While the large sector can employ trained and experienced managers, the small industry, the Proprietor or the partners, or if the unit is a company, its director or directors have to take care of all the problems. The large sector possesses dominance in its industrial relations and they can use their power to influence its raw material suppliers, its customers, and at times even the government while its policy formulation whereas small entrepreneurs are helpless in this respect. He, therefore, has to look after the entire spectrum of problems despite the great limitations under which he functions.

The small and medium –scale industrial enterprises are not, however, without their problems, which are many and varied in nature, depending partly on the level of economic and social development reached by the countries. The views expressed here are partly on discussions with planners' policy markets, administrators and manufacturers concerned with the development of the sector during visits to a number of countries of South Asia and South-East Asia. In Indian context, small industrial problems also have two phases. Many of the problems are internal and these are

compounded with external problems.

**Some of the internal problems faced by small scale industries are:**

- (i) Small scale business units may be considered as one man show as most of these units are set up by individual promoters or entrepreneurs. All individuals come to market with their personal egos and ideas, proprietorial attitudes and ineffective delegation.
- (ii) It is the mindset, courage and vision of the owners which define the rate of progress of the company and these factors are generally influenced by personnel and family requirements.
- (iii) The dealings in these units are informal in nature. Also, the production mechanism is non-systematic. There is no planned outlay to build organizational structure. Hazy, non-transparent systems and procedures are followed to achieve unclear targets in absence of proper budget allocation.
- (iv) There exists no real accountability and lack of professional expertise.
- (v) Small units focus raising short-term gains even at the cost of quality. Rather, a penny wise pound foolish approach.
- (vi) There exists personal loyalty in small units but logical reasoning, career plan and motivation are generally not found. Also, pay scales lower, goodwill and job security are less existent.
- (vii) In many instances, business ideas and exposures are not up to date and adequate, rules and regulations are less understood, product and market knowledge are not up to the market, business remains confined within local or regional markets.

Even after facing such severe internal challenges, some of the business units survive and grow in the market primarily because of few excellent individuals, either the owner or a trusted lieutenant. Most of the players witness limited progress due to the incorrect approach followed by them and ineffective teamwork.

**Some of the external problems and issues are discussed below:**

- (i) Surveys of the material and human resources of the countries to identify the regions or areas for the development of small-scale and medium-scale enterprises;
- (ii) Identification of industrial projects for development;
- (iii) Project preparation and evaluation;
- (iv) Financial or credit support and investment promotion;
- (v) Consultancy and counselling services;
- (vi) Technology development and applications, such as the designing of prototype machines for products identified according to country resources and requirements;
- (vii) Development of infrastructure of various kinds in the appropriate areas;
- (viii) Entrepreneurship development;
- (ix) Industrial training and skill formation;
- (x) Linkages between large industries and small industries and the creation of subcontracting facilities at the national, regional and international levels;
- (xi) Quality control and testing facilities;

- (xii) Market promotion, both domestic and export;
- (xiii) Procurement of new materials and equipment;
- (xiv) Scientific and industrial research;
- (xv) Information collection and dissemination of technology, markets, etc;
- (xvi) Identification of and assistance to enterprises which are experiencing difficulties;
- (xvii) Management and organization or restructuring of small and/or medium-scale enterprises through various schemes;
- (xviii) Productivity increases through modernization;
- (xix) Incentive measures by industry and by area;
- (xx) Local initiative;
- (xxi) Creation of institutions and changes in prevailing institutional arrangements;
- (xxii) Regional and international technical and financial assistance;
- (xxiii) Cooperation among the developing countries.

## 2. Teething Troubles

A small industrialist has to continuously work hard to survive against the odds from conceiving a business idea to finally start a unit. The first step, viz. the preparation of a project report, calls for the collection of data on the marketing of the product chosen, the availability of raw materials, the manufacturing techniques involved, the choice of machinery and location. Large units possess huge financial resources to pay for a fee to a consultant to prepare a project report but a small entrepreneur has to carry out the report preparation process on his own due to his inability to pay consultants.

### 2.1 License

Once the project report is prepared, the next issue on the problem list is to obtain the permission of and license from the Industries Department of the State, local bodies, etc. The petty officials at these offices often show unhelpful behaviour due to their pre-conceived ideas even Government Policy is ineffective. Persuading these government officials to perform their duties involve a lot of cost (time, money and energy). Also, the small entrepreneurs are generally unaware of the correct approach to avail facilities announced by central and state governments to support the sector. Alternatively, they lack the communication skills to deal with well-organised, urbanized bureaucracy. Such handicaps restrict the optimal level of growth of the sector in India. The situation becomes worse in case the production process demands imported machinery or raw materials. The small industrial units have to obtain additional licenses while going through import procedures. This becomes difficult for the entrepreneurs, especially because of the frequent changes in the import procedure in line with government's policy. As a result of such practices, corruption finds place to grow in the economy. This corruption is deep-rooted at each and every level. Hence, it is only courageous, influential entrepreneurs who are successful to emerge with an image in the market. Though the government often states its support and commitment to the rapid development of small-scale industries, it holds them to ransom by implementing wrong policies. For example, Government of Maharashtra distributed cement at ₹ 120 per bag, which was beyond the reach of small entrepreneurs. This gave impetus to stronger, financially stable entrepreneurs to procure cement at this rate and

emerge as a bigger market player. Hence, the faulty policy supported the better off section instead of promoting entrepreneurial practices among the weaker section. Hence, establishing a unit involved enormous cost which cannot be borne by small players.

Table: 4.1: Problems of Enterprises

	<b>Internal</b>		<b>External</b>
(i)	Choice of an Idea	(i)	Infrastructural
(ii)	Feeble structure		(a) Location
(iii)	Faulty Planning		(b) Power
(iv)	Poor Project implementation		(c ) Water
(v)	Poor Management		(d) Post Office, etc.
(vi)	Poor Production		(e) Communication
(vii)	Quality	(ii)	Financial
(viii)	Marketing		(a) Capital
(ix)	Inadequate Finance		(b) Working Capital
(x)	Labour Problems		(c ) Long-term Funds
(xi)	Capacity Utilization		(d) Recovery
(xii)	Lack of Vertical and Horizontal Integration	(iii)	Marketing
(xiii)	Inadequate Training in skills	(iv)	Taxation
(xiv)	Poor and Loose Organization	(v)	Raw Material
(xv)	Lack of Strategies	(vi)	Industrial and Financial Regulations
		(vii)	Inspections
		(viii)	Technology
		(ix)	Policy
		(x)	Competitive and Volatile Environment

### 2.1.1 Inspector Raj in the Country

The industries in the country were delicensed in 1991 but the inspector raj in the sector is still prevalent as the sector is highly regulated. There are atleast 40 inspectors who visit every business unit in the course of a month. These inspectors create issues to trouble the production process in order to raise bribes from producers. Producers paying for these informal fee or charges survive and others face harassment. The following table details the number of inspectors and the job performed by them in the industrial regime:

Ministry	No. of Inspectors	Work Done
Industry	5	Check registration, inventories, tax payment quality control, safety equipment
Home	2	Check fire protection facilities and compliance with Explosive Act
Planning and Statistics	1	Collect data on production, manpower, man-hours utilised and lost
Finance	12	Five for income tax (three of them checking the same records for three different departments); seven from excise department
Separate Revenue	5	Enforcement, verification and recovery of sales tax; enrolment of professional tax; weights and measures
Revenue Department (State Government) tax	1	Registration of professional tax
Labour	8	Checking compliance with different labour laws, checking the same records
Municipal Corporations	2	Municipal bye-laws
Power and Energy	1	Electricity connections
Health and Family Welfare	2	Hygiene and Occupational health
Urban Affairs and Employment	1	Sanitation
Environment and Forests	2	Pollution Control
Communications	1	Telecom facilities
Local Self-government Food and Drug	2	Octroi and Mass raids
Administration	1	Safety standards

## 2.2 Finance

Small units come into existence to meet the demand of goods in the local markets, the neighboring or distant markets or in a combination of markets. Hence, they do not undertake a proper financial management procedure or a logical budget formulation. Most of the funds that are invested in the production process come either from small savings of the entrepreneurs or borrowed funds (mainly from relatives, friends or professional lenders). Only a limited amount of loans are channelized through banks, financial institutions and the government channels. Such a pattern of borrowing funds from non-institutional sector is observed mainly due to the reluctance from the institutional set up to lend to these units, in their early stages of establishment as it involves high risk of repayment default.

Also these small units do not possess large assets to guarantee the loan from banking sector. The tedious, cumbersome procedure required to be fulfilled in order to obtain even a small loan discourage illiterate or semi literate entrepreneurs to avail the facilities. And since the finance they acquire is on a small scale, entrepreneurs prefer to put in their own rather than borrowed funds. For example, skilled persons, who become potential entrepreneurs of small industries in due course, have generally saved some money in the past while they were employed in other firms as wage workers. In fact, it is the ambition of most skilled workers that they should start their own business (especially in the engineering trade) after a few years of service, when they have gained the requisite experience, studied the market trends and accumulated some savings.

The previous employers or the masters of skilled-worker-entrepreneur generally support him in establishing himself depending upon his relationships with these masters. These mistry-entrepreneurs have already developed links in the local markets due to his work experience in the field and market. This also helps them to procure cheap inputs and market its products.

In this way, a short description of financial resources for new entrepreneurs has been presented other than that of Government agencies. Once the unit is established and is in running condition, the entrepreneurs may then seek institutional borrowing for further expansion. However, the extent of this financial assistance sought depends highly upon the growth rate of these units and links developed with institutional lenders. Many established small units hesitate to approach institutional lenders (including government agencies) because of their traditional tie-up with non-institutional bodies and also because of their lack of training, especially in financial matters. This behaviour observed in small entrepreneurs is also reassured by the results of Moga study conducted under the supervision of Mrs. V.S. Mahajan. The report of the study reveals that almost all the 300 old small units covered under the study, engaged in the production of agricultural implements were started with entrepreneur's own funds and with funds borrowed from relatives and friends and that the nationalized banking sector and State Financial Corporations have contributed precious little.

Generally, small scale business units do not possess much financial resources to undertake investments in fixed assets. Also since these units are not considered very credible among institutional agencies to lend money, these units can hardly raise loans from these sources. This handicaps these units to modern machinery and tools in order to maintain well organized, fully-equipped factories. This limited purchasing capacity of units restricts their purchase of good quality raw materials, use attractive packaging, own sales promotion teams or furnishes security deposits, whenever necessary. Even State Finance Corporations involve a long period of time to extend loans to them. Even banks do not show prompt response to dispose loan applications. Even their assistance is hardly available for

initial capital or for future expansion. It is only the working capital needs of the units which are met through banks' assistance.

Apart from this, financial institutions extend loans based on a lot of information and data which these units generally fail to provide up to their satisfaction level. At various occasions, some small industrialists have been found to back out when they are unable to fulfil formalities for State Financial Corporations and banks. If only the bureaucracy were helpful, a major problem of the small industrialists would be solved.

### 2.3 Location

Banks and other financial institutions have not shed their traditional attachment to liquidity and safety of resources. On their part, the small entrepreneurs have no knowledge of the availability of varied financial assistance from various sources. With proper education and training, the small entrepreneur may seek better financial assistance. The choice of location, and getting water and power connections, also call for a great deal of effort on his part. It is not easy to decide on location, for the choice involved consideration of the availability of infrastructural facilities, the cost and tenure of acquisition, the availability of labour and proximity of the markets. Once the location is chosen, one has to go ahead to select and purchase a plot of land and construct a shed or to take it on rent or on ownership basis. At the same time, arrangements have to be made to select and procure machinery and to get it installed.

### 2.4 Raw Materials

With the increased pace of industrialization observed in the country, each industrial unit has to face shortage of right type of raw material at standard prices. The small entrepreneurs become miserable in this regard when they have to depend on the middlemen to procure raw material on credit. This results in higher costs, particularly in case of imported raw materials when the middlemen derive high profits from the transaction. As a result of this scenario in regard to raw materials, small entrepreneurs resort to use of cheap and inferior material that naturally affect the quality of finished products. Also, the production process is adversely affected by irregular supply of some specific raw materials.

The steel-based industries like bicycles and their spare parts, sewing machines and spare parts, automatic leaf springs, agricultural implements, etc. are the worst sufferers of problems in raw material procurement. The shortage of special steel, such as chrome-vanadium steel and chore-silicon steel is even, greater. Manufacturers complain that since some companies supply steel only in wagonloads, they cannot obtain their requirements. Even when some limits can buy wagonloads, there have been complains of inordinate delays between the placing of orders and the receipt of supplies. It appears that, although the quota for small-scale industries has been raised, the actual supply has not matched the quota. It has been alleged that it is the dealers who intentionally delay supplies till the expiry of the quota certificate and later sell this stock in open market at inflated prices in order to earn high profit margins. This leaves small entrepreneurs with no option but to purchase defective imported material or scrap metal from local dealers. The irony of the situation is that they do not benefit from the quota issued to them and have to ultimately buy raw materials from black marketing at prohibitive prices



thereby disturbing their cost calculations. In face of any infrastructural crises, the small sector is the first causality.

It is well evident by now that each industrialist should undertake proper study of raw material market. The immediate problems faced by an entrepreneur related to raw materials are selection of the appropriate quality and type of material as well as procuring them at economic prices. At various occasions, an industrialist has to get the quality check of each batch of the raw material in laboratory so as to maintain consistency in the product quality.

The availability of raw materials has been a great problem in our country. Some of them are chronically in short supply; some are very scarce at times and abundant at others; and there are great price variations. Besides these natural issues, manufacturers and suppliers at times create artificial scarcities in order to push up their prices. The faulty procedure followed by government to formulate policies may also be held responsible for encouraging such practices among suppliers. The political issues and bureaucratic convenience generally lead to frequent changes in control policy that creates confusion in the system, adding to the miseries of buyers. In such circumstances, everyone tries to protect their interest by resorting or stock-piling for a rainy day or unforeseen circumstances.

The small scale rubber industry in India is facing serious troubles arising out of mismatch between demand and supply of raw materials, hence leading to unduly high prices. During the past five years, the consumption of natural rubber has gone up from 1.33 lack tonnes to 1.73 lack tonnes on an average by 8000 tonnes per annum; but the increase in domestic production has been for 1.43 lack tones-1000 tonnes an year. Imports have been channeled through the State Trading Corporation, but they have failed to remedy the situation because of their inadequacy. The current price of RMA-1 grade, around ` 15000 tonnes, exceeds the government's fixed price of ` 82,250 by a wide margin. Unless the situation is rectified soon and concerted measures taken on a long-term basis, widespread shortages of several consumer goods using rubber as a basic raw material would develop and exports would suffer.

Considering the serious shortages of raw materials, significant imports will have to continue from the industry for several years even after the continuous efforts of the production of natural rubber domestically. To meet these import demands, long –term arrangements should be made with some neighboring countries like Malaysia, Thailand, Indonesia, Vietnam and Sri Lanka. Besides, the industry will have to focus on creating reservoirs for these raw materials to ensure smooth flow regularly.

The rubber industry is strongly of the opinion that the Stat Trading Corporation has not been of much help in containing prices or in ensuring an adequate supply of rubber imports, therefore, should be canalized. Imports, by actual users, it has been stressed, ought to be exempted from custom duty. Since domestic natural rubber does not attract any excise duty, imports too ought not to be subjected to a countervailing duty. In view of the attractive prices which the producers are able to receive for natural rubber, the cess charged from the industry for the ostensible purpose of fostering the cultivation of rubber should be dispensed with.

The Estimated Committee of Parliament has revealed in its report and expressed grief on the shortages of raw materials faced by small-scale sector which obstructs the important role of employment generation and intensified development of new industries assigned to them. Its 14th report of Industries Ministry laid emphasis the high priority to be accorded to availability of raw materials to the sector based upon its contribution to industrial production and national economy. As a matter of fact, these requirements should be the first charge on the availability of such materials,

consistent with the needs of such other important and strategic sectors such as public utilities, defence and oil exploration. According to the committee, the assessment of raw material requirement for the sector has not been properly done by government officials to whom the task was allocated. Hence, the committee recommends the government to conduct a proper survey to evaluate the demand of raw materials in the sector, especially for the scarce ones.

Also the committee reiterated the levying of excise duty at basic input stage or at the end product stage. In its 12th report on the action taken by the government on the recommendation made by it, the committee has stated that the government should try out such a scheme on an experimental basis, to begin with, for a selected number of commodities, before gradually extending it in the light of the experience gained. It has favoured, a one-stage imposition of excise duty with a view to curbing evasion of payments, reducing scope for harassment and minimizing administrative expenditure.

### 2.5 Technology

Technology is the case of all industries. Despite the Industrial policy in India promotes small-scale sector, the growth observed in the sector has not been up to the mark. One of the major handicaps of the small-scale sector has been the absence of latest technology which alone can ensure quality and high rate of productivity. The small industrialist, therefore, should keep himself abreast of development in technology, so as to:

- (i) Remain in the market;
- (ii) Improve the quality of his products;
- (iii) Lower the cost of production; and
- (iv) Pass on the benefits to the consumers.

Unless he takes to this policy, he may soon find himself squeezed out of business. It is even advisable for the small entrepreneur to give a lead in research and development, which may not always be very expensive. Even without the facility of a sophisticated laboratory and gadgets, by using his intellectual capabilities and utilizing the knowledge gained by others, it is possible for him to stumble upon some new ideas, provided that he is development-oriented and is capable of innovation.

### 2.6 Marketing

Marketing is another critical area for small-scale entrepreneurs. Some of the problems faced by entrepreneurs while marketing these products may be enumerated below:

- (i) Lack of standardization;
- (ii) Poor designing;
- (iii) Poor quality;
- (iv) Poor quality control;
- (v) Lack of precision;
- (vi) Poor finish;
- (vii) Lack of after-sale services;

- (viii) Poor bargaining power;
- (ix) Scale of production;
- (x) Brand preferences;
- (xi) Distribution contacts;
- (xii) Lack of knowledge of marketing;
- (xiii) Competition;
- (xiv) Ignorance of potential markets;
- (xv) Unfamiliarity with export activities-procedures and market know-how, and
- (xvi) Financial weakness

As we already know that small entrepreneurs cannot spend as much as large unit does to market their products due to their weak financial base. A rare exception is the pharmaceutical industry in which the gap between the manufacturing cost and the selling price is very large. In such special situations, different marketing techniques are used which involves high costs, particularly the marketing cost of those drugs for which there are stiff competition. Small industries, in this regard are left with no option but to follow the same trend in order to survive in global markets.

Since most of the small units do not have a developed marketing channel for themselves, they sell their products to large selling houses for further sale. For instance, Voltas markets a range of products produced by small sector. Similarly, Bata does the same practices. As a result of these practices, small units invariably get a raw deal. On the other hand, large companies make good money by selling the cheap small-sector goods at invariably high prices in market. The need of the hour is to increase the number of marketing consortia to assist small units with marketing strategies.

## 2.7.Recoveries

One of the most difficult problems faced by small entrepreneurs today is to recover revenues from sales. An established practice in the sector is the expectations of the buyers to obtain good on credit from the sellers. This is generally enforced upon by larger units on the smaller ones. The initial practices were to obtain goods on credit for a period of a month or two but with time and tighter money markets, the term has been extended up to 12 months. At various occasions, the buyer may just get away with the products without even paying for it.

The financial assistance availed of by the small unit with great difficulty for a bank is taken advantage by its customers who do not pay their dues in time. In case banks extend further assistance, it is time bound. This problem has not been adhered to while formulating the New Bill Market Scheme by the Reserve Bank. Hence, now it is the responsibility of the central government to introduce such measures that curb these practices and save the interests of small entrepreneurs.

## 2.8. Labour

Human capital or labour resources play a significant role in operation of small scale industries and handling it becomes a difficult task due to the presence of human element in it. The industrialists also have to adhere to frequently changing labour laws as the labourers in today's world are completely aware of their rights. Hence, managing the factor requires a lot of patience and understanding.

Unfortunately, the labourers engage themselves in unions which are further influenced by political parties and often create issues unnecessarily, even in areas where it is not required. To protect their interests, politicians often prevent a settlement of a dispute between labour and employers, and thus work against the interests of both. As a result, it is imperative to evolve a code of conduct for trade unionists in order to protect interests of both labour and employers. This, in a way will add to general prosperity and well-being of all.

## 2.9 Other Problems

Special economic and industrial surveys must be undertaken in order to identify growth points or potentially expanding areas in the country and the industrial projects that are likely to develop successfully and will contribute to the country's development. A report must be prepared from the data collected from these surveys. Based on this report, an appraisal of the project must be done in all aspects-economic, marketing, financial, social, commercial, managerial, technological and environmental. In other works, a cost-benefit analysis of the projects, including the likely social impact, should be prepared.

To undertake such surveys and prepare reports on the data collected require high skills of experts in more than one discipline. A normal entrepreneur would not be able to undertake such a study. Beside the skills, an important additional requirement is the availability of a group of persons or entrepreneurs willing to initiate projects, take risks and put in capital (although financing agencies, are there to help with credit). Another serious problem confronted by intended industrialists is to obtain information about available technologies and their suitability for the prospected project. Thus, technical advice, counseling and information become very important. It is not possible to initiate a project in any area without essential infrastructure such as, transport, power supply, etc. Besides this, provision of industrial training must also be focused.

A matter of importance in facilitating the development of small and medium-scale enterprises is to ensure the mutuality of interests and the linkages between the large enterprises and the small-scale enterprises so that the former offer a demand for the products of the latter. A lot of times small scale units have been found to supply parts, components and accessories to large units. The prerequisite to establish such a linkage is identification of the product needed by the large-scale industries and ensure their efficient provision. For instance, in India which is industrially and technologically advanced among the developing countries, the National Small Industries Corporation has now given priority to identification and development of the types of products needed by the large scale industries and the designing of the prototype machines for producing them.

The most important area that seeks attention of the small scale industries is the quality of goods supplied by them. Until the quality of goods is targeted, large units will not demand them. The designing of machines, has, however, to be tailored to the local needs and resources available within the country. Small sector in Hong Kong and Singapore works to supply raw materials to the large sector. Small and medium scale enterprises in Asia and Pacific region are also following the same trend. This of course, is in addition to the traditional small-scale and cottage enterprises which play an important role in the economies of the region. Use and development of appropriate technology along with imparting technical skills play an important role while reorienting the small units as per the demands of large-scale industries.

Other factors are extremely important for the development of traditional small-scale and cottage enterprises in such countries such as Bangladesh, Nepal and Sri Lanka. These include upgradation of skills through industrial training, promotion of markets, and the procurement of raw materials (particularly those which must be imported) and of equipment.

The requirements of developing small and medium enterprises vary across different countries due to their varied levels of economic and industrial development.

### Major Problems Faced by Small Scale Enterprises

- Difficulty in obtaining credit from commercial banks because of their general inability to provide security.
- Inability to offer liberal credit terms in the sale of their products
- Absence of management expertise. Often management is by one person who performs a number of functions usually with no formal training.
- Difficulty in completing with imported products due to high-production costs.
- Difficulty with competition from other local entrepreneurs in the same line of business competing for the limited local market.
- Difficulty in obtaining industrial land in towns and cities. The shortage of industrial land is giving rise to more and more backward operations.
- Under capitalization.
- Difficulty in identifying appropriate technology and technical assistance.
- The manner in which both the needs of the economy and linkage with existing industry can be served.
- Bureaucratic red-tape and regulations.
- Surveys of the material and human resources of the countries to identify the regions or areas for the development of small-scale and medium-scale industrial enterprises.
- Identification of industrial projects for development.
- Project preparation and evaluation.
- Finance or credit support and investment promotion.
- Consultancy and counselling services.
- Technology development and applications such as, the designing of prototype machines for products identified according to country's resources and requirements.
- Development of infrastructure of various kinds in the appropriate areas.
- Entrepreneurship development.
- Industrial training and skill formation.
- Linkages between large industries and small industries and the creation of sub-contracting facilities at the national, regional and international levels.
- Quality control and testing facilities.
- Market promotion, both domestic and export.
- Scientific and industrial research.
- Information collection and dissemination on technology, markets, etc.
- Identification of and assistance to enterprises which are experiencing difficulties.
- Management and reorganization or restructuring of small and/or medium-scale enterprises through various schemes.
- Productivity increases through modernization.

- Incentive measures, by industry and by area.
- Local initiative.
- Creation of institutions and changes in prevailing institutional arrangements.
- Regional and international technical and financial assistance.
- Cooperation among the developing countries.

### 2.10 Management

The greatest difficulty faced by a small scale entrepreneur is in the field of management. A good management is a key to success for a well-organized industry. Any manager can be successful only if he has a good judgment about the problems that may arise in future and is able to prepare himself and the unit well for it in time. It is the responsibility of the manager to gauge strength in weakness of his organization, and appraise the new situation, and to meet it, work out a strategy. This strategy would then involve resources of the organization. These resources include: Men, Material and Money-the three Ms of industry. The manager keeps the track of these resources-the ones that are available and the ones which are required. He manages their availability from everywhere and put them together into use. The manager has to face difficult challenge at each and every step. The results of his endeavours depend upon the calculated decisions taken by him.

Indian business units have traditionally observed their management by business families which are passed on as legacy to younger generations. It was believed that people from a particular class were capable of managing business, others didn't have that calibre. This too has a base, in a traditional business family, the prospected manager started getting training at a young age and was prepared to become a good manger in early phases of his life. However, this traditional practice has not been free from its own aberrations. In the final analysis, the success of any business depends on the earnestness with which he applies himself to learn out of his own experience. There is no systematic pattern of management of enterprises has been developed by traditional practices. It exists and suffers from individual whims and fancies. It has never bothered to foster or train new entrepreneurs, nor welcomed newcomers because of fears of competition rather than for any other reason. By and large, its objective is limited to earning quick profits for the owners of the industry, often at the cost of the future of industry itself, with which the owners do not identify themselves.

However, modern management has overcome the problems of the old system to a great extent. Recent trends have supported a proper and systematic study of the subject. Universities today, offer a wide range of regular courses. These courses enable modern managers with a strong knowledge base. This thorough knowledge coupled with better on-the-job training results in better managers than that of one's produced by traditional training.

The basic function of management is to identify, gather and utilize the relevant material for attainment of desired goals. Management is a skill which can be acquired like all other skills. The success of an industry is largely determined by a satisfactory management of finance, inventory, budgeting, marketing, accounting and manpower. These areas are deeply studies, and the information collected is utilized to plan and control the activities of a unit. The most important of all is the management of finance and inventory. Many units get sick because of improper handling of these areas of management.

## 2.11 Coordination and Integration

Purposeful coordination and integration of such supporting institutions will go a long way in making these institutions a valuable resource that can go into the small industry, leading to its accelerated growth. Again, such assistance should be easily and constantly made available to the small entrepreneur and this could be possible only if the service institutions or organized regionally, if not locally. Further, the assistance should also be prompt and efficient. Promptness would go a long way in saving time, which amounts to sacking on expenses, and consequently improving profitability. It should also be equally efficient. The diagnosis should be correct and the remedies should be effective. Efficiency, therefore, means correct diagnosis and effective remedies. The whole object of assistance to small entrepreneurs is to improve vitality as well as competitive ability of their industrial units. This is important because enterprising service institutions and innovative local entrepreneurship can together change the environment and the horizon of the small industries sector in the developing economies. Infrastructure is thus acquiring a wider connotation and greater significance than ever before. It is essential for the developing countries to realize this and prepare themselves to face the new challenges that await on the horizon.

### Helping Small Entrepreneurs

While there are no simple solutions and remains to be learned about how to create a favourable environment for small enterprises, several countries, with assistance from the World Bank during the last five years, have employed a more Market-oriented approach to fostering them. It is too early to evaluate the results, but the response so far has been encouraging.

Essentially, the approach entails the following measures:

- (i) to reduce subsidies and policy preferences which favour large industry and discriminate against the small;
- (ii) to enhance the availability and efficient utilization of inputs commonly needed by small firms, and
- (iii) to increase the range of marketing opportunities.

Fundamental to the market-oriented approach is the view that small enterprises will thrive, if they are economically efficient, without a plethora of special subsidies and government interventions.

### Develop Industrial Culture

Education-of the right kind can play a significant role in ensuring growth for small industries. Industrialization ushers in a new culture. It revolutionizes the society. Each industry thrives for a new sense of both individual as well as social values. Modern industry and marketing practices demand attitudes and approaches different from the ones observed in conventional agriculture and traditional arts and crafts. Though man invented the machine, the latter eventually tends to discipline its creator. As a result modern industry has altered individual and collective behaviour of man. Some of the virtues of industrial culture today include punctuality in attendance, continuous vigilance, sense of economy,

attitude of productivity, pride in the job and awareness of schedules. While agriculture is more individualistic, industry is more collectivist. Hence, it is the social development of these new attitudes and tendencies that will make a difference and these attributes have to be collectively adopted by everyone related to industrial operations. In marketing sphere, an entrepreneur has to face stiff competition which can only be survived if the manager imbibes himself with aggressiveness and other such qualities.

A sense of specialization and professionalism is being displayed by progressively scientific and technological character observed in industry as well as marketing. This process further gains momentum when mechanization, sophistication and automation follow. Modern industrialist society has introduced change in quality and magnitude, change in processes and practices, change in designs and patten in fact and all other kinds of changes. Small industries cannot afford to be oblivious of this factor.

There is a continuous need to progressively modernize small industries. It is not merely modern machinery or advanced technology which can bring about a change in the sector, psychological attitudes of people involved play a dominant role. The social mind must become progressively modern and rational. The society ought to exhibit new character, new disciplines, and new temper. There is a radical transformation required for traditional values and conventional attitudes. This complete transformation requires systematic development of new abilities and capabilities; replacement of traditional culture related to agriculture. The industry can progress only if the paucity of modern skills and capabilities is done away. Education must instill a spirit of inquiry, pride in enterprise and optimism toward innovative change. In order to bring about this change in education system, it needs to be built up on different lines where the emphasis is on achievement, innovation and enterprise. With such an education system, the entrepreneurial base will continue to be narrow and education will provide the requisite and appropriate impulse and motivation, which in turn will breed industrial entrepreneurship and infuse service institutions with a sense of purpose and a spirit of achievement. If the state governments take care of education, service institutions and entrepreneurship, they will ensure emergence and progress of small industries.

### 3.CONCLUSION

Problems always exist in establishment and running of a business unit irrespective of its scale of operation. In case a business unit feels that there are not challenges that they have to face anymore, it should be considered as an alarming bell indicating that degeneration is around the corner. Hence, the problems of small industries should be treated in this spirit. This, of course, does not give the leverage to government, local bodies, financial institutions or banks to create unnecessary obstacles in path of small industries, nor the industrialist should follow an isolated approach. Rather they must recognize their existence in the society where each section has its own strong and weak points.

Varied needs of small industries have been catered by central and state governments through its promotional institutions during the phase of developmental planning in India. Various institutions have been set up to assist these units in their establishment and to provide for adequate raw materials, power supply, working capital along with assistance in setting up special outlets for sale of their products. The government has to interfere in the sector for its promotion because of lack of a meaningful coordination among the concerned agencies.



The entrepreneur needs reorient his attitude and develop special leadership qualities necessary for taking decisions based on wider implications rather than trodding the narrow path of urge satisfying actions alone. His problem, therefore, is one of growing from professional entrepreneur into a professional manager and finally into an administrator in order to successfully come out of the growth crises which he starts facing once his enterprise grows from a small business into a large enterprise.

Entrepreneurs face multi-dimensional problems which can only be addressed by coordinated efforts of entrepreneurs, coordinated functioning of promotional agencies, and governmental assistance without red-tape or bureaucratic delays. To run an enterprise smoothly, an entrepreneur must be properly educated and vested with necessary skills which can be acquired by proper training. In fact, the entrepreneur is the kingpin of industrial spectrum.

Education is the only medium which can massively and rapidly spread, what is called an industrial culture. Education is a social resource which motivates a society into certain activities in preference to others. Education is an industrializing society that is bound to be different from what it is in a predominately agricultural society. The main purpose of education is to equip present generation with skills to perform in future when industry depends on science and technology, as well as effective execution and management, the object and content of education, must, in essence be to appreciate the needs of tomorrow and to provide requisite skills to fulfill their needs. The irony of the situation is that the education systems in most developing countries do not comprehend to needs of today and tomorrow. The arch of industry would need the foundation of modern education that will support modern industry with the resultant industrial culture. Systems of education have, therefore, to be imaginatively and objectively evolved so as to stimulate and motivate the young men of the developing countries to face industrial tasks in the small industry. The tasks have to be faced mostly by the individual entrepreneur and so the need for the right type of education relevant to these tasks is assuredly most imperative.

Knowledge is power. Knowledge is creative. Knowledge empowers the entrepreneur to be creative and initiative in solving the problems faced by his enterprise. Improve the working, make it profitable. Thus, accelerating the process of economic development.

Indian education system must be reformulated now bringing together industry and academia in order to bridge the talent gap that exists in the system today. Training individuals for the jobs of the future and allowing them to visualize what is possible today will not make a difference in their lives but will enrich our communities now and in future as well.

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