



ROLE AND IMPORTANCE OF SMALL SCALE INDUSTRY IN INDIA

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Abstract

In a developing country like India, the role and importance of small-scale industries is very significant towards poverty eradication, employment generation, rural development and creating regional balance in promotion and growth of various development activities. It is estimated that this sector has been contributing about 40% of the gross value of output produced in the manufacturing sector and the generation of employment by the small-scale sector is more than five times to that of the large-scale sector. This clearly shows the importance of small-scale industries in the economic development of the country. The small-scale industry have been playing an important role in the growth process of Indian economy since independence in spite of stiff competition from the large sector and not very encouraging support from the government. Small Scale Industries (SSI) exists in every country. In a developing country like India the small scale sector occupies a special place in the industrial structure. Therefore Government of India has given this sector an important place in the framework of Indian economic planning for ideological as well as economic reasons. As a result, small sector has achieved an impressive growth in the number of units and production over the last six decades after independence. In spite of having huge potentialities, the Indian small scale industries could not progress satisfactorily as these industries are suffering from various weaknesses. Thus, in this research paper an effort has been made to identify the problems relating to the Indian small scale industries and to know the prospects of Indian small scale industries.

Keywords: *Small and Medium Enterprises, Socio-economic Development, Economic Reforms.*

Introduction

The Small and Medium Enterprises (SMEs) play a vital role in the industrial development of any country. The importance of the SME sector is well recognized worldwide due to its significant contribution to gratifying various socio-economic objectives, such as higher growth of employment, output, promotion of exports and fostering entrepreneurship. India has nearly three million SMEs, which account for almost 50 per cent of industrial output. They are an essential employment-generating sector with 50 per cent of the private sector employment and 30-40 per cent of value addition in manufacturing.¹ They produce a diverse range of products (over 8000), including consumer items, capital and intermediate goods. However, SMEs in India which constitute more than 80 per cent of the total number of industrial enterprises and form the backbone of industrial development are not export competitive and contribute only about 34 per cent of exports. The Small Scale Industries play an important role in Indian economy in spite of facing numerous difficulties. The Government of India has taken certain measures for the development of cottage and small scale industries.² We know that the small scale industries are handicapped by inadequate supply of finance. The State Finance Corporation, The National Small Industries Corporation and the nationalized Commercial Banks are taking measures to provide long term finance for the development of such industries. The Central Government has now given loans to the State Government for the institution of industrial estates. In the rural areas, the Industrial Training Centers have been set up for the proper education and training of cottage workers and artisans. Moreover, the Government has made arrangement for the supply of good raw materials to the cottage and small industries. In recent years, the Government has provided technical training to the artisans and craftsmen. The Indian Government has set up the Cottage Industries Board, the Khadi and village Industries Board, Inventions Promotions Board, Small Industries Development Board etc. for the development of small scale industries.³ The Boards are endowed with adequate finance and large power in their hands. The Government has imposed excise duties on factory good with a view to enabling the small industries to compete with them. The Indian Government has also made provision for cheap electricity and small machine tools in order to raise the labor productivity of small scale cottage industries. Suitable steps have been taken for effective marketing organization. In this connection, we may say that the Government has started sales depot in all important cities of the country and made arrangements for the exhibition of products of small and cottage industries.⁴

With the help of the Reserve Bank of India, the nationalized Commercial Banks have been taking suitable measures for the modernization of machines and production techniques of small scale and cottage industries as a complementary to large scale units. We get quality products from the cottage industries. In accordance with the suggestion of the Planning Commission, the Government of India has made provision for the reservation of spheres of production of cottage and small scale industries. The Government of India has also set up the Regional Industries of Technology and the Small Scale Industries Service Institute for improving the management of cottage, industries and also for rendering technical advice to such industries. Besides, in order to carry out the research work in techniques of production of industries a Village Industries Research institute has been established in the country. The National Small Industries Corporation was set up in 1956 which established close link with the Government for the supply of machines and equipment of small industries on hire purchase



scheme. The Government of India has launched an ambitious industrial estates programme, the objectives of which are to shift small scale industries from congested areas to estate premises, achieve decentralized industrial developments in small towns, and provide well planned accommodation to small scale units at suitable sites with facilities for water, electricity, transport, bank etc. It also seeks to bring a number of units together and thereby facilitate the establishment of common facility centers. All these schemes taken by the Government have made the small scale industries a real source of strength to the entire economy of the country. In 1999-2000 they accounted for the total production of goods valued about Rs. 578,470 crores and offered direct employment to 17.85 million workers. Their output has been increasing at the rate of 10% per year. In fact, the small industries have grown in size and acquired sophistication and modernity to such an extent that it is a misnomer to call them small.⁵ SMEs form the backbone of the Indian manufacturing sector and have become engine of economic growth in India. It is estimated that SMEs account for almost 90% of industrial units in India and 40% of value addition in the manufacturing sector. This paper closely analyses the growth and development of the Indian small scale sector from opening of the economy. Small and Medium enterprises play an important role in the development of the country. However, these industries face difficulty in accessing adequate finance for their businesses. Apart from the traditional modes of financing like banks and money lenders, newer sources of Financing such as venture capital investment, can take care of their financing requirements. In the case of India, the government has taken several initiatives both at the national and international levels to improve the availability of finance. But there are still certain impediments that the SMEs face that are required to be addressed by the government. SMEs encourage entrepreneurial development and dispersal of the industries throughout the length and breadth of the country. It also generates a lot of employment opportunities and the capital cost per employee is minimum. With the service sector contributing a major share to the GDP and as this sector relies on the SMEs, the scope for SME finance by the commercial banks has increased tremendously.⁶ The government is also committed to give a fillip to the 14 sector through infrastructural development, skill development effort, technological up gradation and by expanding the role of small industries Development Bank of India in SME development.

Objective of Study

The main objectives of the present study are

1. To examine the growth and performance small scale industries.
2. To analyze the problems of small scale industries.

Research Methodology

The present study has based on only secondary data. The secondary data is collected from the website of development of economy, mainly in developing countries. If population of India is taken into consideration it can be said that this sector has a wide scope in India. If small scale industrial sector is developed other economy related problems can be dissolved automatically. The present study is exclusively based on secondary data which has been collected from the various issues of Annual Reports on MSMEs and Handbook of Statistics on the Indian Economy published by Ministry of MSMEs and Reserve Bank of India (RBI) respectively. The study considers the time period from 2001-02 to 2010-11. To examine the performance of MSMEs in India, the available data have been processed and presented in the form of suitable tables.

Limitations of Study

Incomplete Information: Study is completed with the help of available secondary data only.

Review of Literature

This paper reviews the existing microeconomic evidence on whether SMEs boost growth and reduce poverty. A growing body of work suggests that SMEs do not boost the quantity and quality of employment. Initially, Birch (1979) argued that small firms are particularly important in job creation. He reports that over the 1970s, firms with fewer than 100 employees generated eight out of ten new jobs in America. However, a wide array of evidence rejects the view that small firms are the engines of job formation (Dunne, Roberts, and Samuelson, 1989; Leonard, 1986; Brown, Hamilton, and Medoff, 1990). For instance, Davis, Haltiwanger and Schuh (1993) show that while gross rates of job creation and destruction are higher in small firms; there is no systematic relationship between net job creation and firm size. In Sub-Saharan Africa, Biggs and Shah (1998) find that large firms were the dominant source of net job creation in the manufacturing sector.

Problems Faced by Small Scale Industries

The Micro, Small and Medium Enterprises sector (MSMEs) is an omnibus group of industries of vastly varying sizes. Based on the size of investments in plant and machinery, these enterprises are classified as micro (not exceeding Rs.2.5 million), small (more than Rs.2.5 million but not exceeding Rs.50 million) and medium (more than Rs.50 million but not exceeding Rs.100 million). This group of industries provides employment to 60 million persons and account, in value terms, for about 45 per cent of manufacturing output and 40 per cent of India's total exports. The authorities have made heroic efforts to foster



development of this sector, yet most of these units have limited track record and are vulnerable to cyclical fluctuations and often macroeconomic policies impinge adversely on these enterprises. This paper attempts to discuss some key problems of this sector and how best these units can protect themselves in a rapidly changing economic environment.⁷

The following are some of the important role played by small- scale industries in India

Employment generation: The basic problem that is confronting the Indian economy is increasing pressure of population on the land and the need to create massive employment opportunities. This problem is solved to larger extent by small-scale industries because small- scale industries are labour intensive in character. They generate huge number of employment opportunities. Employment generation by this sector has shown a phenomenal growth. It is a powerful tool of job creation.

Mobilization of resources and entrepreneurial skill

Small-scale industries can mobilize a good amount of savings and entrepreneurial skill from rural and semi-urban areas remain untouched from the clutches of large industries and put them into productive use by investing in small-scale units. Small entrepreneurs also improve social welfare of a country by harnessing dormant, previously overlooked talent. Thus, a huge amount of latent resources; re being mobilized by the small-scale sector for the development of the economy.

Equitable distribution of income

Small entrepreneurs stimulate a redistribution of wealth, income and political power within societies in ways that are economically positive and without being politically disruptive. Thus small-scale industries ensures equitable distribution of income and wealth in the Indian society which is largely characterized by more concentration of income and wealth in the organized section keeping unorganized sector undeveloped. This is mainly due to the fact that small industries are widespread as compared to large industries and are having large employment potential.

Regional dispersal of industries

There has been massive concentration of industries in a few large cities of different states of Indian union. People migrate from rural and semi urban areas to these highly developed centers in search of employment and sometimes to earn a better living which ultimately leads to many evil consequences of over-crowding, pollution, creation of slums, etc. This problem of Indian economy is better solved by small- scale industries which utilize local resources and brings about dispersion of industries in the various parts of the country thus promotes balanced regional development.

Provides opportunities for development of technology

Small-scale industries have tremendous capacity to generate or absorb innovations. They provide ample opportunities for the development of technology and technology in return, creates an environment conducive to the development of small units. The entrepreneurs of small units play a strategic role in commercializing new inventions and products. It also facilitates the transfer of technology from one to the other. As a result, the economy reaps the benefit of improved technology.

Indigenization

Small-scale industries make better use of indigenous organizational and management capabilities by drawing on a pool of entrepreneurial talent that is limited in the early stages of economic development. They provide productive outlets for the enterprising independent people. They also provide a seed bed for entrepreneurial talent and a testing ground for new ventures.

Promotes exports

Small-scale industries have registered a phenomenal growth in export over the years. The value of exports of products of small-scale industries has increased to Rs. 393 crores in 1973-74 to Rs. 71, 244 crores in 2002-03. This contributes about 35% India's total export. Thus they help in increasing the country's foreign exchange reserves thereby reduces the pressure on country's balance of payment.⁸

Supports the growth of large industries

The small-scale industries play an important role in assisting bigger industries and projects so that the planned activity of development work is timely attended. They support the growth of large industries by providing, components, accessories and semi-finished goods required by them. In fact, small industries can breathe vitality into the life of large industries.⁹

Better industrial relations

Better industrial relations between the employer and employees helps in increasing the efficiency of employees and reducing the frequency of industrial disputes. The loss of production and man-days are comparatively less in small- scale industries. There is hardly any strikes and lock out in these industries due to good employee-employer relationship. Of course, increase



in number of units, production, employment and exports of small- scale industries over the years are considered essential for the economic growth and development of the country. It is encouraging to mention that the small-scale enterprises accounts for 35% of the gross value of the output in the manufacturing sector, about 80% of the total industrial employment and about 40% of total export of the country.¹⁰

Present Policy Framework and Focus Areas

Policy –Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 intended to promote the development of these enterprises and also enhance their competitiveness. It provides the first- ever legal framework for recognition of the concept of “enterprise” which comprises both manufacturing and service entities. It defines medium enterprises for the first time and sees to integrate the three fires of these, namely, micro, small and medium. The act also provides for a statutory consultative mechanism at the national level with balanced representation of all sections of stakeholders, particularly the three classes of enterprises, and with a wide range of advisory functions. It offers the establishment of specific funds for the promotion, development and enhancing competitiveness of these enterprises, notification of schemes/ programmers for this purpose. It also makes provision for progressive credit policies and practices. As said by Prof A.K.Sengupta that government prefers procurements of products and services of the micro and small enterprises, more effective mechanisms for mitigating the problems of delayed payments to micro and small enterprises and assurance of a scheme for easing the closure of business by these enterprises are some of the other features of the act. The Ministry of MSME (Micro, Small and Medium Enterprises) has also taken a view, in the light of the liberalized provisions of the MSMED Act 2006, to do away with the restrictive 24% ceiling prescribed for equity holding by industrial undertakings, whether domestic or foreign, in the erstwhile Small Scale Industries (now MSEs). This coupled with an expected legislation on Limited Liability partnerships.¹¹ The Ministry of Micro, Small and Medium Enterprises has drawn up a road map and has been holding detailed consultations with stakeholders to generate condenses on further trimming this list.

Conclusion

Small scale industries have been playing an important role in Indian economy in terms of employment generation and growth. In spite of having huge potentialities, the small scale industries in India could not progress satisfactorily as these industries are suffering from various weaknesses. If remedial measures are taken in proper time and spirit the small scale sector will be able to utilize huge development potential available in the country and the SSI sector will prove itself as one of the most dynamic and vibrant sector of the economy of the country. For the development of rural and farm group, different departments should be formed. Similarly, in the development of industrial ministry for urban Micro and Small and Medium Industries specific efforts should be done. SMEs always represented the model of socio-economic policies of Government of India which emphasized judicious use of foreign exchange for import of capital goods and inputs; labor intensive mode of production; employment generation; no concentration of diffusion of economic power in the hands of few (as in the case of big houses); discouraging monopolistic practices of production and marketing; and finally effective contribution to foreign exchange earning of the nation with low import-intensive operations. SMEs are the growth engine of the economy and help sustain other sectors such as services.

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