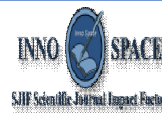


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Problems of Small Scale Industries in India

Abstract

The role of small scale industries in the economic development of India in recent years is critically analyzed in this paper. Small scale industries play a vital role in the development of economy, mainly in developing countries. If population of India is taken into consideration it can be said that this sector is developed other economy related problems can be dissolved automatically. But these have to face so many problems while competing with other large scale industries. Various factors affecting the growth and development of small scale industries and problem faced by this vital sector of Indian economy is examined. The contribution, export promotion and other economic indicators are discussed. During last 60 years, the limit of investment has changed from Rs. 5 lacs in the sixties to Rs. 5 crores in 2010. If the problems are solved or efforts are taken to faster these challenges this sector can prove itself as a developing engine. It is important to examine the growth of small scale industries in the context of more liberal economy and see what kind of technology flexible specialization or mass production should be followed for further growth and to encourage employment generation.

Introduction

The small scale industries have a crucial role in a developing economy like India. They play a strategic role in progress of the country. These industries by and large represent a stage in economic transition from traditional segments to modern segments. The traditional nature of this process is reflected in the diversities of these industries. Some small scale units employ simple skills and mechanism while many other units use modern and sophisticated technology. Now our economy is facing a challenge of economic growth.

India is an emerging economy with a population of more than one billion. Nearly 40% of the population lives below the poverty line and 70% of the population is dependent on the agriculture for sustenance. The economic reconstruction of India depends on the balanced growth of economy in the fields of agriculture and industry because capital and finance have been scarce in India. The govt. of India has encouraged alternatives to agriculture and heavy industries like small scale industries. Which can operate on limited resources? Small scale industries are the most suitable type of the developing countries. The role of industries is also one of the characteristics and

has different types of units functioning in the fold of as economy.

Thus, small and large scale industries are two legs of industrialization process of a country. Hence SCI are found in existence in every country. India operates the largest and oldest programmes for the development of SCI in any developing country. Therefore the present study through some light on their problems. This paper divided into seven sections.

Objectives

- To examine the growth and performance of small scale industries.
- To analyze the problems of small scale industries.
- To determine whether lack of managerial skills constitute a major problems in the performance of small scale industries.
- To examine the remedies for small scale industries.

Method: The present study has based on only secondary data. The secondary data is collected from the various books, website and other published material.

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

Concept of Small Scale Industries

Small-scale industry comprises for a variety of undertakings. The concept of SCI is not only new to India but also practicing in the age old traditional systems in the ancient period. The definition of Small-scale industry varies from one country to another and from one time to another in the same country depending upon the pattern and stage of development, Govt. policy and administrative set up of the particular country. Policy and administrative set up of the particular country. In the USA small business is one which has employment of less than 500 people. In the UK, it is less than 20 skilled workers, in Sweden and Italy less than 50 and 500 people respectively. The definition of SSI in India changed from time to time. It is currently defined in terms of investments ceilings on the original value of installed plant and machinery is Rs. 1 crore at present.

Table 1: Investment Limits for Small-Scale Industry

S. No.	Year	Investment Limits	Condition
1	1950	Up To Rs 0.5 Million In Fixed Assets	Less Than 50/100 Persons With, Without Power
2	1955	Up To Rs 0.5 Million In Fixed Assets	No Condition
3	1960	Up To Rs 0.5 Million In Fixed Assets	No Condition
4	1966	Up To Rs 0.5 Million In Fixed Assets	No Condition
5	1975	Up To Rs 1 Million In Fixed Assets	No Condition
6	1980	Up To Rs 2 Million In Fixed Assets	No Condition
7	1985	Up To Rs 3.5 Million In Fixed Assets	No Condition
8	1991	Up To Rs 6 Million In Fixed Assets	No Condition
9	1997	Up To Rs 30 Million In Fixed Assets	No Condition
10	1999 & On Wars	Up To Rs 10 Million In Fixed Assets	No Condition

Source: *Udyog You (July 2004 Issue)*

Problems of Small Scale Industries

Small-scale industry plays a very vital role in the economic development of our country. This sector can stimulate economic activity and entrusted with the responsibility of responsibility of realizing various objectives like generation of more employment opportunities with less investment, reducing regional imbalances etc. SCI are not in a position to play their role effectively due to various problems faced by SCI.

The major problems small scale industries are as under.

1) Problem of Skilled Manpower

The success of a Small-scale industry revolves around the entrepreneur and its employees, provided the employees are skilled and efficient. Because inefficient human factor and unskilled manpower create innumerable problems of adequate skilled manpower in the rural sector poses problem to small scale industries. Professionals and technocrats are also not interested to join small scale as this sector is not ready to compensate them properly.

2) Defective Supply of Raw Materials

Small-scale industry are facing the problem of short supply or raw materials small size and weak financial position also force them to unutilized the services of middlemen to get raw materials on credit from suppliers canalizing agencies like state level small industry corporations STC, MMTC and Handloom Development Corporations are not providing much help in arranging adequate supply of raw materials at right price in right time. So they fail to utilize their full production capacity and it also increases their cost of production which adversely affects their competitive strength in the market.

3) Inadequate Credit Assistance

Inadequate and timely supply of credit facilities is an important problem faced by Small-scale industry. This is partly due to scarcity of capital and partly due to weak credit worthiness of the small units in the country. Lack of finance is the main obstacle for the development of Small-scale industry is a part of the widest problem of small industries is a part of the wider problem of capital scarcity in the economy as a whole and it is partly due to the peculiarity of small industry organization. The creditworthiness of small borrowers is generally weak and therefore the face reluctant creditors who may be induced to lend only at a very high rate of interest.

4) Lack of Machinery and Equipment

Small-scale industries are also facing the problem of inferior supply of machinery and equipments etc. most of companies which are engaged in production of plants and machineries are meant from medium and large scale companies. Only selected companies or few producers are engaged in the production of plant, machineries and equipments for Small-scale sector. So they charge high price for their

capital goods supplied from small scale units. Bargaining power of SSI is not so much and they have to work with available machineries in the market. It also affects the production performance of small scale units.

5) Absence of Organized Marketing Facility

One major problem of Small-scale industries is marketing. This unit often does not possess any marketing organization and consequently their product compare with the quality of the product of large scale industries. Therefore they suffer from competitive disadvantages with large scale units. They also fail to get adequate information about consumer's choice, taste and preferences of the type of product. The above problems do not allow them to stay in the market.

6) Lack of Latest Technology

SSIS lack latest technology as they do not have any technological support from the Govt. and other alone can ensure quality and high level of productivity. R and D efforts are costly rent are and SSIS do not have resources to finance these programs individually and internally. Small enterprises have a very limited choice with regard to foreign collaboration and technological support too. Special steps have not yet been taken to address the issues of collaboration between Indian and overseas small industries.

7) Lack of Infrastructure

India economy is characterized by inadequate infrastructure which is a major problem for small units to grow. Most of the small units and industrial estates found in towns and cities are having one or more problems like lack of power supply, water and drainage problem, poor roads, raw materials and marketing problems. Thus absence of adequate infrastructure adversely affects the quality, quantity and production schedule of the enterprises.

8) Competition From Large Scale Units

SSIs are facing the problems of competition from their other counterparts, medium and large scale industries. Since 1991 a large number of items reserved for small industries are now freely importable. Medium and large scale industries are also producing goods, which are competition with the goods being produced by the SSIs. So, SSIs are unable to compete with large scale units.

9) Other Problems

Besides the above problems, small scale units have been of constrained by a number of other problems also, the include poor project planning, managerial problems, old and poor designs, transportation problems, lack of power, lack of warehousing, lack of information, poor recoveries, unsuitable location, huge number of bogus small firms. Due to these problems the development of small scale industries could not reach high stage.

Remedies for Small Scale Industries

Small scale industries are holding 9 very important places in the industrial system of the country. But the SSIs have many problems. Thus the necessary remedies to remove these problems of small scale industries.

01) Training and Development

Small scale industries should make concerted efforts in imparting proper education and training to workers as they are valuable asset of industry. Expenditure on training and development should be treated as an investment. Workers should be encouraged to innovate themselves in the production process at it would enable the SSIs to compete with large scale industries.

02) Effective Planning

Small scales industries are required to conduct survey of the existing situations prevailing in small scale sector and draw productive programmers for them. A detailed feasibility study is highly essential for small entrepreneurs to start their units. Without proper planning they may be affected by improper location.

03) Investment in Prober Technology

Small scale industries should try to improve their techniques of product and adopt modern technology. Govt. organization has an important role to play in this context. They have to arrange viable and modern techniques of production to them. They should also try to give a lead, if possible financially in research and development efforts.

04) Infrastructural Facilities

Development finance, power, water supply etc. are necessary for smooth functioning to small scale industries. SDC, SIC, STCO are engaged in provision of these facilities. Development of industrial estates has solved these problems to a certain extent but effort is needed to develop more industrial estates to SCIs.

05) Supply of Raw Materials

Small industries development corporations and other agencies responsible for the supply of raw materials to small unit. They should also ensure that bogus forms are to be excluded from this type of support. Govt. should also intervene from time to time in arranging cheaper raw materials for them.

06) Credit Arrangement

For SSIs traditional sources of financing offer little scope for expansion and alternative means like venture capital are yet to be developed for them. SIDBI has formulated guidelines for venture capital and there is hope for better finance facility for this sector.

07) Marketing Arrangements

Small scale industries should focus on brand, product and market development. They should try to remain in the market and special trust should be given on quality improvement programmed. SSIs should try to popularize their products in the market which will provide them separate product and brand identity.

08) Provide Suitable Machinery

Small scale industries should try to develop separate machineries for taking initiative with regard to problem faced by them. Associations like FICCI, CII are more powerful in maintaining their relations with the govt. they should focus on seminar, conferences to improve their knowledge about machineries.

Conclusion

In the above study the major problems were found about small scale industries. The empower small scale industries sector to take rightful place in the growth of Indian economy it is necessary support to SSIs. The state and will as central govt. should provide necessary facilities to face cut throat competition, govt. provide infrastructure facilities to units, provide proper training inputs from professional institute. The industrial policy should be favor of small scale industries. The small scale industries need to be educated and informed of the latest development taking place globally and helped to acquire skills necessary to keep pace with the global developments. The inclusion of service sector is indeed a good initiative to have new schemes to promote this sector.

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