

Problems of Small Scale Industry in India



Commerce

KEYWORDS :

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ABSTRACT

The Small Scale Industry (SSI) sector play a pivotal role in the Indian Economy in terms of its contribution to the country's Industrial Production, Exports, Employment and the creation of an entrepreneurial base. It contributes 8 percent of the country GDP, accounts for 45 percent of the manufacturing sector output and 40 percent of exports. Government has appointed various committees for the development of SSI sector. In spite of several efforts by government still SSI are facing problems in India. Lack of sufficient funds, shortage of Raw Materials, Idle production capacity, problems related laws of state government and central government etc. are the main problems of SSI in India. The government should implement recommendations of various committees on SSI. The government should motivate SSI units for the development of Indian Economy. Special Tax structure and Finance structure should be set up by government for the development of SSI.

Section-I

Introduction

The small scale Industry (SSI) sector play a pivotal role in the Indian Economy in terms of its contribution to the country's Industrial Production, Exports, Employment and the creation of an entrepreneurial base. This sector has recorded a high growth rate since 1947 despite shift competition from the large scale sector. Small scale industries play a vital role in the economic development of any country.

The role that the Micro and small Enterprise sector plays not only in the inclusiveness of Industrial growth, but in the quantum of growth too, has to be noted. It contributes 8 percent of the country GDP, accounts for 45 percent of the manufacturing sector output and 40 percent of exports. Therefore, the Prime Minister appointed a higher level task force in 2009 to examine ways to overcome the handicaps in the growth of the sector. The Task force's recommendations are now being implemented.

As per a report of the RBI out of 40 percent earmarked for priority sector lending; only 15 percent is being funded to SSIs. The internal capabilities of SSIs in financial management are comparatively weak and support for overcoming this weakness is inadequate. The banker is still seen as an inquisitor and not as a development partner.

The definition of small scale Industry varies from one country to another country. In most of the country of the world, the criterion for defining a small enterprise is related to the size of employment. For instance, in the USA, small business is one which has employment of less than 500 people. In the U.K. it is less than 20 skilled workers, in Sweden and Italy less than 50 and 500 people respectively. In some countries both investment and employment are taken into account. It is very important to study the problems of Small Scale Industry in India. The rest of the paper has been divided into five sections. Section-II describes the objective of the study, Section-III describes methodology, Section-IV describes data analysis, Section-V describes limitation of the study and Section VI describes conclusion of the study.

Section-II

Objective of the Study

The main objective of the study is to identify the problems of small scale Industry in India.

Section-III

Methodology

The problems related small scale industry find out on the basis of available literature regarding Small Scale Industry in India (SSI). Only Secondary data has been used.

Section-IV

Data Analysis

There are different types of problems faced by the small scale in-

dustry in India. Major areas of problems faced by the Small Scale Industries are (1) Finance (2) Raw Material (3) Idle Capacity (4) Technology (5) Marketing (6) Infrastructure (7) Under Utilisation of Capacity (8) Project Planning (9) Lack of skill manpower and (10) Managerial vision

This sector can stimulate economic activity and is entrusted with the responsibility of realizing various objectives generation of more employment opportunities with less investment, reducing regional imbalances etc. Small scale industries are not in a position to play their role effectively due to various constraints. The various constraints, the various problems faced by small scale industries are as under:

(1) Finance

Finance is one of the most important problem confronting small scale industries Finance is the life blood of an organization and no organization can function proper in the absence of adequate funds. The scarcity of capital and inadequate availability of credit facilities are the major causes of this problem.

Firstly, adequate funds are not available and secondly, entrepreneurs due to weak economic base, have lower credit worthiness. Neither they are having their own resources nor are others prepared to lend them. Entrepreneurs are forced to borrow money from money lenders at exorbitant rate of interest and this upsets all their calculations.

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

(2) Raw Material

Small scale industries normally tap local sources for meeting raw material requirements. These units have to face numerous problems like availability of inadequate quantity, poor quality and even supply of raw material is not on regular basis. All these factors adversely affect the functioning of these units.

Large scale units, because of more resources, normally corner whatever raw material that is available in the open market. Small scale units are thus forced to purchase the same raw material from the open market at very high prices. It will lead to increase in the cost of production thereby making their functioning unviable.

(3) Idle Capacity

There is under utilization of installed capacity to the extent of 40 to 50 percent in case of small scale industries. Various causes of this under-utilization are shortage of raw material problem associated with funds and even availability of power. Small scale units are not fully equipped to overcome all these problems as is

the case with the rivals in the large scale sector.

(4) Technology

Small scale entrepreneurs are not fully exposed to the latest technology. Moreover, they lack requisite resources to update or modernize their plant and machinery Due to obsolete methods of production; they are confronted with the problems of less production in inferior quality and that too at higher cost. They are in no position to compete with their better equipped rivals operating modern large scale units.

(5) Marketing

These small scale units are also exposed to marketing problems. They are not in a position to get first hand information about the market i.e. about the competition, taste, liking, disliking of the consumers and prevalent fashion.

With the result they are not in a position to upgrade their products keeping in mind market requirements. They are producing less of inferior quality and that too at higher costs. Therefore, in competition with better equipped large scale units they are placed in a relatively disadvantageous position.

In order to safeguard the interests of small scale enterprises the Government of India has reserved certain items for exclusive production in the small scale sector. Various government agencies like Trade Fair Authority of India, State Trading Corporation and the National Small Industries Corporation are extending helping hand to small scale sector in selling its products both in the domestic and export markets.

(6) Infrastructure

Infrastructure aspects adversely affect the functioning of small scale units. There is inadequate availability of transportation, communication, power and other facilities in the backward areas. Entrepreneurs are faced with the problem of getting power connections and even when they are lucky enough to get these they are exposed to unscheduled long power cuts.

Inadequate and inappropriate transportation and communication network will make the working of various units all the more difficult. All these factors are going to adversely affect the quantity, quality and production schedule of the enterprises operating in these areas. Thus their operations will become uneconomical and unviable.

(7) Under Utilization of Capacity

Most of the small-scale units are working below full potentials or there is gross idle capacity. Large scale units are working for 24 hours a day i.e. in three shifts of 8 hours each and are thus making best possible use of their machinery and equipments.

On the other hand small scale units are making only 40 to 50 percent use of their installed capacities. Various reasons attributed to this gross under-utilization of capacities are problems of finance, raw material, power and underdeveloped markets for their products.

(8) Project Planning

Another important problem faced by small scale entrepreneurs is poor project planning. These entrepreneurs do not attach much significance to viability studies i.e. both technical and economical and plunge into entrepreneurial activity out of mere enthusiasm and excitement.

They do not bother to study the demand aspect, marketing problems, and sources of raw materials and even availability of proper infrastructure before starting their enterprises. Project feasibility

analysis covering all these aspects in addition to technical and financial viability of the projects, is not at all given due weight-age.

Incomplete documents which invariably results in delays in completing promotional formalities. Small entrepreneurs often submit unrealistic feasibility reports and incompetent entrepreneurs do not fully understand project details.

Moreover, due to limited financial resources they cannot afford to avail services of project consultants. This result is poor project planning and execution. There is both time interests of these small scale enterprises.

(9) Skilled Manpower

A small scale unit located in a remote backward area may not have problem with respect to unskilled workers, but skilled workers are not available there. The reason is Firstly, skilled workers may be reluctant to work in these areas and secondly, the enterprise may not afford to pay the wages and other facilities demanded by these workers.

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

(10) Managerial

Managerial inadequacies pose another serious problem for small scale units. Modern business demands vision, knowledge, skill, aptitude and whole hearted devotion. Competence of the entrepreneur is vital for the success of any venture. An entrepreneur is a pivot around whom the entire enterprise revolves.

Many small scale units have turned sick due to lack of managerial competence on the part of entrepreneurs.

The small scale entrepreneurs have to encounter numerous problems relating to overdependence on institutional agencies for funds and consultancy services, lack of credit-worthiness, education, training, lower profitability and host of marketing and other problems. The Government of India has initiated various schemes aimed at improving the overall functioning of these units.

Section-V

Limitation of the Study

The present study is only on the basis of secondary data. The real problems can be analysed on the basis of primary data collected from person associated with SSI. Regression analysis will be very useful to measure associated factors for the development of SSI and Indian Economy.

Section-VI

Conclusion

Small Scale Industry Play an important role for the development of Indian economy. Still these industry faced number of problems. Problems related Finance and problems related laws are the main problems for the growth of SSI. Scarcity of finance and credit is main obstacles in the development of small scale industries and situation is worse in the case of cottage and village industries. Government should solve all the problems related to SSI should removed. The government should implement all the recommendations of kapoor committees and Task Force on Micro, Small and Medium Enterprises.

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