

# Study on Performance of Indian Small Scale Industry



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## Abstract

The small scale sector has been assigned an important role in the industrial economy of the country on account of some of its inherent advantages like low capital intensity, high employment generation capacity, regionally balanced development and even distribution of wealth and income. Small Scale Industries (SSIs) exist 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. This paper analyses the region wise growth and performance of small scale industries

**Keywords:** Indian Small Scale Industries, Employment Generation and Growth, Lack of Machinery, Equipment and Five Year Plan.

## Introduction

Micro, small and medium enterprises can play an important role in promoting equitable development and introducing innovation on a small scale. In India manpower is abundant but capital is relatively scarce. Small scale industries tend to be labour intensive. Therefore, these industries are better suited to the country's resource potential. In view of the vast potential of small scale sector, the Government of India has accorded due priority in Indian economic planning that followed Indian independence. Obviously, it has born fruits during the last seven decades. However, despite having large potential of labour and natural resources there has been no desired progress and performance in SSI sector. The paper intends to examine the present position taking into account its strength and weakness and to suggest measures to utilize the strength and remove the weakness.

## Objectives of the Study

The specific objectives of the present study are:

1. To study the development of the SSI units in India.
2. To suggest specific measures
3. To ensure steady development
4. To modify and update SSI units on the basis of findings of the study

## Small Scale Industries

In India, small-scale industries (SSIs) occupy 12.3 million units, contribute to 40 per cent of their exports and provide employment to about 29.5 million people. The SSIs now produce more than 8000 products. By recognizing the importance of SSI units in the development of economy, the government has been continuously attempting to improve the availability of critical input to this sector and create appropriate infrastructure and environment.

## Concept & Definition of SSIs

The SSIs in India has an important role to play in its economic development. The modern small scale industry had its beginning in India in the early part of the nineteenth century and prior to that only traditional-artisan based small scale industrial units existed. Industrial units are generally classified between small scale, medium scale and large scale units; considering their size, capital resources and the number of labourers engaged upon. The concept of small business has been defined by

different countries in different ways. Moreover, the definition has been changing over time. Size of the Business and Qualitative Criteria are the two main

criteria used to define small business. The criteria adopted in different countries are given in Table-1.

**Table-1**  
**Bases of Defining Small Business in Various Countries**

S.No.	Criteria	Countries
1	Investment in Plant and Machinery	India, Pakistan, Indonesia
2	Employment	USA and UK
3	Investment and Employment	Japan, Korea and Phillipines
4	Production / Sales Turnover	China, UK (commercial)
5	Employment and Sales Turnover	Korea (commerce)
6	Investment and Sales Turnover	Malaysia

**Source:** Gupta C.B. & Khanka S.S., 'Entrepreneurship and Small Business Management (2010)

The definition of small scale industries (SSI) in India has changed over the years. According to the Fiscal Commission, 1950 "A small scale industry is one which is operated mainly with hired labour usually 10 to 50 hands". Accordingly, the Industries (Development and Regulation) Act, 1951 exempted small scale units employing less than 50 workers with power and less than 100 workers without power, from the system of registration. These exempted industries were termed as small scale industries. The Indian government has also given due importance to Small Scale Industries (SSIs) in the five-year plans because of their immense advantages. All five-year plans have stressed the need to develop SSIs in India. Today, the

status of SSI is better than the past years. 'Fixed capital investment in a unit' has also been adopted as the other criterion to make distinction between small scale industries and the large scale industries. This limit is being continuously raised upwards by the government.

Recently, significant policy initiatives have created easy availability of financial assistance, incentives and subsidies and influenced many enterprises to start SSIs. A retrospective view of these changes in the investment limit of Small Scale Industries (SSI) and Ancillary Units (AU) is given in Table-2.

**Table-2**  
**Changes in the Investment Limit of SSI and Ancillary Units (AU)**

Year	SSI (Investment Limit in Rs.)	AU (Investment Limit in Rs.)
2003-04	15 Lakh	N.A.
2004-05	17.5 Lakh	20 Lakh
2005-6	20 Lakh	25 Lakh
2006-7	30 Lakh	35 Lakh
2007-8	45 Lakh	55 Lakh
2008-9	70 Lakh	85 Lakh
2009-10	05 Crore	07 Crore
2010-11	03 Crore	03 Crore
2011-12	4.5Crore	4.5 Crore

**Sources:** 1. The Government of India–Economic Survey, Laghu Udyog Samachar-Variou Issues and the SIDBI Report on Small Scale Industrial Sector.

It is clear from Table-2 that "small" has become quite "big" over a period of time. In 1997 government started the process of reservation of items of production exclusively by the small scale sector. The number of items reserved for the small scale sector reached 873, the peak in 2004. Thereafter there has been a continuous relaxation of the reservation policy overtime and the number of items reserved was 239 on January 2011. The process of de-reservation of items from small scale sector continued in recent years. On February 5, 2012, the Government has excluded an additional 79 items from a list of 114 items which can be exclusively manufactured in the small scale sectors. With this de-reservation, only 35 items can now be manufactured in the SSI sector. These include food and allied items, wood, wood products, paper, paper products, plastic products, organic chemicals, drug, drug

intermediates, other chemicals, chemical products, glass, ceramics, mechanical engineering, electrical machines, appliances and apparatus. The Government has been de-reserving items in a gradual and calibrated manner to increase competitiveness of the industry, facilitate adequate flow of credit and upgrade technology.

#### **Role of Small Scale Industries**

Small scale industries have been playing an important role in Indian economy in terms of employment generation and growth. Research studies indicate that the SSI sector has been contributing about 40 per cent of the gross value of output produced in the manufacturing sector, 6.9 per cent of the net domestic product and more than 35 per cent of the total volume of exports of the country. Besides the generation of employment by the small scale sector is more than five times to that of the large scale

sector. The second plan rightly emphasized the role of small scale and village industries in growth and employment generation

1. Equitable distribution
2. Mobilization of capital
3. Mobilization of entrepreneurial skill
4. Regional dispersal of industries
5. Better industrial relations

It is due to the above mentioned factors that the growth rate of small scale industrial sector has remained faster in terms of its number, employment and output.

#### **Weakness of the Small Scale Industries**

In spite of having huge potentialities, the small scale industries in India could not progress satisfactorily as these industries are suffering from various weaknesses. The major weaknesses of the small scale industries are the following:

1. Inefficient human factor
2. Faulty and irregular supply of raw materials
3. Lack of machinery and equipment
4. Absence of credit facilities
5. Absence of organized marketing facility
6. Competition from large scale units and imported articles
7. Old and orthodox designs
8. High degree of obsolescence
9. Substantial underutilization of capacity varying between 47 to 58 per cent
10. Huge number of bogus concerns
11. Unsuitable locations etc

Due to all these weaknesses the development of small scale industries could not reach a prestigious stage. The Seventh Plan has rightly observed that "All these constraints have resulted in a skewed cost structure placing this sector at disadvantage vis-à-vis the large industries both in the domestic and export markets."

#### **Remedial Measures**

Small scale industries are occupying a very important place in the industrial structure of the country. Thus, suitable steps should be taken to remove all those weaknesses from which these industries suffer. The remedial measures are following:

1. Conducting detailed surveys of the existing small scale industries and drawing productive programmes for them.
2. Improvement in techniques and adoption of modern technology in SSI units.
3. Imparting proper education and training to workers engaged in small scale units.
4. Regular supply of inputs at reasonable rates.
5. Adequate credit arrangement.
6. Provision for cheap and regular supply of electricity.
7. Effective marketing managements like sales depot and exhibitions.
8. Conducting research on the techniques of production.
9. Maintaining standards and quality of the output produced by SSI units.
10. Temporary protection through reservation of spheres of small scale industries.

11. Establishing separate suitable machinery with large powers and initiative to tackle different typical problems of small scale industries of the country.

#### **Suggestion**

1. The bank under study may have specialized branches in each district to the loan requirements of the small scale industries.
2. The lead banks in all districts may have periodical meetings with the DICs and the Association of the SSI units to assess the nature, type and amount of loans required by SSI units.
3. The banks may conduct sample surveys of the performance of the SSI accounts to find whether they are getting adequate bank credit for their operations.

#### **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 sectors of the economy of the country. The furtherance and advancement of SSIs is essential for the development of Indian economy to achieve impartial distribution of income and wealth, economic self-dependence and economic sustainable developments and to boost the SSI sector so that it can take deserved place in the growth mechanism of Indian economy. Therefore, Small Scale Industries (SSIs) occupy a special place in our state.

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