Problems of Small Scale Industries in India

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ABSTRACT

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 has a wide scope in India. If small scale industrial 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. If these problems are solved or efforts are taken to foster these challenges this sector can prove itself as a developing engine.

Keywords: medium and small scale industries, growth rate, promotion.

I. INTRODUCTION

Lack of capital, excessive dependence of agriculture and abundant supply of manpower are the characteristic futures of many developing countries in Asia. Happily these economies have been realizing that agriculture is which cannot meet their local requirements and therefore, that the pressure on land could be substantially reduced through the development of small scale industries. Small scale is 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 an economy Therefore, the present study through some light on their problems.

II. OBJECTIVES

The main objectives of the present study are:

- To examine the growth and performance small scale industries.
- To analyse the problems of small scale industries.

III. RESEARCH METHODOLOGY

The present study has based on only secondary data. The secondary data is collected from the website of the Ministry of Small and Medium Enterprises, the government of India and other published material.

Limitations of Study:

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

2. Limit of Time:
   Study has completed in given time period by university.

IV. CONCEPT OF SMALL SCALE INDUSTRIES

The concept of 'small scale industry' is not only new to India but also practicing in the age old traditional systems in the ancient period. The definition of small scale industries are changing its central idea and have been shaped in the planning period. Since then it was maintained till the year 2006. These units have been merged with “Micro, small and Medium Enterprises” (MSME). The act clearly dived into two categories of industries; one is enterprises engaged in the manufacturing of production of goods pertaining to any industry, also another is, in the case of enterprises engaged in providing or rendering of services.

The MSMEs of manufacturing enterprises have been classified into micro, small and medium enterprises based on the amount of investment in plant and machinery as follows:

<table>
<thead>
<tr>
<th>Manufacturing Enterprises – Investment in Plant and Machinery</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Description</strong></td>
</tr>
<tr>
<td>-----------------------</td>
</tr>
<tr>
<td>Micro Enterprises</td>
</tr>
<tr>
<td>Small Enterprises</td>
</tr>
<tr>
<td>Medium Enterprises</td>
</tr>
</tbody>
</table>
The MSMEs of service enterprises have been classified into micro, small and medium enterprises based on the amount of investment in equipments as follows:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro Enterprises</td>
<td>Up to Rs 10 Lakhs</td>
</tr>
<tr>
<td>Small Enterprises</td>
<td>Above Rs 10 Lakhs &amp; Up to Rs. 2 Crores</td>
</tr>
<tr>
<td>Medium Enterprises</td>
<td>Above Rs 2 Crores &amp; Up to Rs. 5 Crores</td>
</tr>
</tbody>
</table>

V. ANALYSIS OF PROSPECTS AND PROBLEMS OF MSMEs

It is clear from table 1 that the total numbers of Small Scale industries have increased from 105.21 lakhs in 2001-02 to 298.08 lakhs in 2009-10. These have grown around three times in a span of ten years. However, they grow consistently till 2005-06 but in 2006-07 growth rate was unimaginable (i.e. 111.18 per cent) and thereafter the growth rate has been around 4.5 per cent till 2009-10 as compared to their respective previous years.

It can be witnessed from table no.2 that small scale industry has maintained a higher rate of growth vis-à-vis the overall industrial sector. It is clear from the data of table 1.2 that the growth rate of small scale industries has increased from 10.88 per cent in 2004-05 to 13.00 per cent in 2007-08 where as the growth rate in overall industrial sector has increased from 8.40 per cent to 11.90 per cent during the same period with increasing trend till 2006-07 but declined in 2007-08. This indicates that the contribution of SSI has been much higher as compared to overall industrial sector in India. The father of nation, Mahatma Gandhiji said that the small and micro enterprises are the backbone of Indian industrial sector. The sayings of father of nation has been holding true in Indian economy. Therefore, the central as well as state governments should give priority in the development of this sector by making them more competitive.

VI. PROBLEMS OF SSIs

Despite of recommendable contribution to the nation's economy, the SSI sector does not get the required support from the concerned Government Departments, Banks, Financial Institutions and Corporate, which become a handicap for more competitive in the National and International Markets. Small-scale industries in India could not progress satisfactorily due to various problems that they are confronted with while running enterprises. In spite of having huge potentialities, the major problems, small industries face are given below.

1. Problem of skilled manpower:

The success of a small enterprise revolves around the entrepreneur and its employees, provided the employees are skilled and efficient. Because inefficient human factor and unskilled manpower create innumerable problems for the survival of small industries. Non-availability of adequate skilled manpower in the rural sector poses problem to small-scale industries.

2. Inadequate credit assistance:

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth Rates of SSI Sector (2001-02 baseIP(%))</th>
<th>Overall Industrial Sector Growth Rates (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004-05</td>
<td>10.88</td>
<td>8.40</td>
</tr>
<tr>
<td>2005-06</td>
<td>12.22</td>
<td>8.00</td>
</tr>
<tr>
<td>2006-07</td>
<td>12.60</td>
<td>11.90</td>
</tr>
<tr>
<td>2007-08</td>
<td>13.00*</td>
<td>8.70</td>
</tr>
<tr>
<td>2008-09</td>
<td>**</td>
<td>3.20</td>
</tr>
<tr>
<td>2009-10</td>
<td>**</td>
<td>10.50</td>
</tr>
<tr>
<td>2010-11</td>
<td>**</td>
<td>7.80</td>
</tr>
</tbody>
</table>

Source: Annual Report 2011-12 by MSME
*Projected IP
** Due to revised definition of MSMEs sector Methodological revisions are under progress.
Inadequate and timely supply of credit facilities is an important problem faced by small-scale industries. This is partly due to scarcity of capital and partly due to weak creditworthiness of the small units in the country. Lack of finance is the main obstacle for the development of small-scale industries. The financial 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 organisation. The creditworthiness of small borrowers is generally weak and therefore they face reluctant creditors who may be induced to lend only at a very high rate of interest.

3. Irregular supply of raw material:

Small units face severe problems in procuring the raw materials whether they use locally available raw materials or imported raw materials. The problems arise due to faulty and irregular supply of raw materials. Non-availability of sufficient quantity of raw materials, sometimes poor quality of raw materials, increased cost of raw materials, foreign exchange crisis and above all lack of knowledge of entrepreneurs regarding government policy are other few hindrances for small-scale sector.

4. Absence of organised marketing:

One major problem of small-scale industries is marketing. These units often do not possess any marketing organization and consequently their products compare unfavourably with the quality of the products of large-scale industries. Therefore they suffer from a competitive disadvantage vis-a-vis large-scale units. In the absence of organised marketing, their products compare unfavourably with the quality of the product of 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.

5. Lack of machinery and equipment:

Small-scale units are striving hard to employ modern machineries and equipment in their process of production in order to compete with large industries. Most of the small units employ outdated and traditional technology and equipment. Lack of appropriate technology and equipment create a major stumbling block for the growth of small-scale industries.

6. Absence of adequate infrastructure:

Indian 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 problem. Thus absence of adequate infrastructure adversely affect the quality, quantity and production schedule of the enterprises which ultimately results in under-utilization of capacity.

7. Competition from large-scale units and imported articles:

Small-scale units find it very difficult to compete with the product of large-scale units and imported articles which are comparatively very cheap and of better quality than small units product.

8. Other problems:

Besides the above problems, small-scale units have been of constrained by a number of other problems also. They include poor project planning, managerial inadequacies, old and orthodox designs, high degree of obsolescence, transportation problems, lack of power, and lack of adequate warehousing, lack of information. Due to all these problems the development of small-scale industries could not reach a prestigious stage

VII. CONCLUSION

The promotion of SSI is essential in developing economies like India to achieve equitable distribution of income & wealth, economic self-dependence & entrepreneurial development. To empower the SSI sector to take its rightful place as the growth engine of Indian economy, it is necessary to support the MSMEs, educate and empower them to make optimum utilization of the resources, both human and economic, to achieve success. The SSIs need to be educated and informed of the latest developments taking place globally and helped to acquire skills necessary to keep pace with the global developments.

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