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# THE PERFORMANCE OF SMALL-SCALE INDUSTRIES IN INDIA

Small-scale industries have emerged as a vibrant and dynamic sector that contributes around 40 per cent of the total industrial production and over 34 per cent of the national exports to the Indian economy. At present, the small-scale industries sector is providing employment to over 40 million people.



## Small-scale industries in India

Small-scale sector has broadened from SSIs to small-scale enterprises that include all business enterprises in the services sector which provide service to industrial sector in addition to SSIs. Taking into account all these factors, at present, Reserve Bank of India uses an expanded definition of SSIs which includes:

1. Small-scale industrial undertaking which is engaged in the manufacturing, processing and preservation of goods in which the investment in plant and machinery does not exceed ₹ 50 million. These would include units engaged in mining or quarrying servicing and repairing of machinery.

2. Tiny enterprises whose investment in plant and machinery does not exceed ₹ 2.5 million.

3. Power looms.

4. Traditional industries which require high workmanship and techniques and also village and household industries producing common goods of consumption predominantly by using simple tools.

5. The decentralised and informal sector like handlooms and handicrafts.

**T**he captains of our economy are more than aware of the importance of the small-scale industries (SSIs) in terms of employment potential, productivity, utilisation of indigenous resources, balanced regional development, etc. According to Dr Manmohan Singh, "The key to our success in employment lies in the success of manu-

facturing of the small-scale sector." The small-scale sector is important not only for its contribution to GDP but also for its stellar performance in exports and in generating employment. The growth and development of this sector is explained by means of the year-wise data under various headers such as number of units, investment in the sector, production, employment and exports.

6. The industry related to services/business enterprises.

7. Food and agro-based industries.

8. Software industry.

The development of SSIs is being given due importance by the government in order to achieve the following objectives:

1. To provide additional employment opportunities.

2. To mobilise resources of capital and skill from various parts of the country.

3. To provide a more equitable distribution of national income.

4. To provide a helping hand to large industries and facilitate them in their work.

### Small-scale industries and economic development of India

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

**Mobilisation of resources and entrepreneurial skill.** SSIs can mobilise a good amount of savings and entrepreneurial skill from rural and semi-urban areas which 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 is being mobilised by the small-scale sector for the development of the economy.

**Equitable distribution of in-**

Year	Number of units (Rs million)	Investment (Rs million)	Growth rate of investment
2000-01	1.011	14,684.5	4.90
2001-02	1.052	15,434.9	5.11
2002-03	1.095	16,231.7	5.16
2003-04	1.140	17,021.9	4.87
2004-05	1.186	17,869.9	4.98
2005-06	1.234	18,811.3	5.27
2006-07	2.610	20,730.7	10.20
2007-08	2.728	19,704.6	-4.95
2008-09	2.852	20,314.93	3.09
2009-10	2.981	20,925.29	3.00
2010-11	3.041	21,494.56	2.72
2011-12	3.254	22,915.36	6.61

Source: Reserve Bank of India, Annual Reports from 2001 to 2012

**come.** The SSIs ensure equitable distribution of income and wealth in the Indian society which is largely characterised by more concentration of income and wealth in the organised sector keeping unorganised sector undeveloped. This is mainly due to the fact that small industries are widespread as compared to large industries and have large employment potential.

**Regional dispersal of industries.** There has been massive concentration of industries in a few large cities of different states of India. People migrate from rural and semi-urban areas to these highly developed centres in search of employment and sometimes to earn a better living which ultimately leads to many evil consequences like overcrowding, pollution, creation of slums, etc. This problem of Indian economy is better solved by SSIs which utilise local resources and bring about dispersion of industries in various parts of the country thereby promoting balanced regional development.

**Providing opportunities for development of technology.** SSIs

have tremendous capacity to generate or absorb innovations. They provide ample opportunities for the development of technology and technology in turn, creates an environment conducive to the development of small units. The entrepreneurs of small units play a strategic role in commercialising new inventions and products. They also facilitate the transfer of technology from one to the other. As a result,

the economy reaps the benefit of improved technology.

**Promotion of exports.** SSIs have registered a phenomenal growth in export over the years. The value of exports of products of SSIs has increased from ₹ 6979.7 million in 2000-01 to ₹ 28,384.7 million in 2011-12. Thus they help in increasing the country's foreign exchange reserves thereby reducing the pressure on country's balance of payments.

**Supporting the growth of large industries.** The SSIs 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 them components, accessories and semi-finished goods. In fact, small industries breathe vitality into the life of large industries.

**Better industrial relations.** Better industrial relations between the employer and employees help in increasing the efficiency of employees and reducing the frequency of industrial disputes. The loss of production and man days are compara-

Table II

**Production, Employment and Exports of SSIs in India**

Year	Production (Rs million)	Employment (Rs million)	Exports (Rs million)	Growth rate of production	Growth rate of exports
2000-01	1,844,010	24.09	6979.7	8.23	28.78
2001-02	2,822,700	24.93	7124.4	2.07	2.07
2002-03	3,067,710	26.02	8601.3	8.68	20.73
2003-04	3,363,440	27.14	9764.4	9.64	13.52
2004-05	3,729,380	28.26	12,441.7	10.38	27.42
2005-06	4,188,840	29.49	15,024.2	12.32	20.75
2006-07	4,716,630	31.26	18,253.8	12.59	21.49
2007-08	5,329,790	32.23	20,201.7	12.99	10.67
2008-09	5,942,950	33.44	21,438.7	11.50	6.12
2009-10	6,556,110	35.24	23,875.2	10.32	11.36
2010-11	7,233,190	37.85	25,683.4	10.33	7.57
2011-12	8,045,130	40.96	28,384.7	11.22	10.52

Source: Reserve Bank of India, Annual Reports from 2001 to 2012

tively less in SSIs. There are hardly any strikes or lockout in these industries due to good employee-employer communication and relationship. Of course, increase in number of units, production, employment and exports of SSIs over the years are considered essential for the economic growth and development of the country.

The working number of units and growth rate of investment in small-scale sector in India are shown in Table I.

Table I shows the number of units in India. They were 1.011 million in the year 2000-01 which have increased continuously up to the year 2011-12 as 3.254 million. The investment in SSI in India has declined to ₹ 14,684.5 million in 2000-01 and ₹ 22,915.36 million in the year 2011-12. The growth rate of investment increased from 4.90 per cent in 2000-01 to 5.16 per cent in 2002-03, but the year 2007-08 shows the negative growth of investment in India.

The production, employment and growth rate of exports in small-scale sector in India are shown in Table II.

Table II reveals that the SSI production in India was ₹ 1,844,010 mil-

lion in the year 2000-01 which has increased continuously up to the year 2011-12 as ₹ 8,045,130 million. The employment in SSIs in India has been declined to 24.09 million in 2000-01 and 40.96 million in the year 2011-12. The value of exports of products of SSIs has increased from ₹ 6979.7 million in 2000-01 to ₹ 28,384.7 million in 2011-12. The growth rate of production was increased from 8.23 per cent in 2000-01 to 11.22 in 2011-2012, except in the year 2001-02 which shows the positive growth of production in India.

**Sickness amongst the SSI units**

Industrial sickness is an accepted phenomenon in the process of growth and development of any industrialised economy. But the condition should not be allowed to persist beyond a particular limit, or else the economy will suffer. The productive resources wasted, production dipped and employees thrown out of jobs, the industrial sickness would cause agony not only to the financial institutions but also to the economic and

social systems as well.

As per Table III, the number of sick SSI units was 249,630 in the year 2000-01 which decreased continuously up to the year 2004-05 to 138,041 units. The number of sick units decreased from 126,824 in 2005-06 to 85,591 in 2011-12. The amount outstanding on the total sick units ranges from ₹ 45,060 million in 2000-01 to ₹ 67,900 million in 2011-12. The large majority of the sick units in the SSI sector are beyond redemption, and waiting for a safe exit. The data amply explain the damage caused to the economy in general and the financial institutions in particular. Million of employees are thrown out of jobs from these failed units playing havoc in the lives of poor people.

**Problems faced by the small-scale industries in India**

SSIs in India could not progress satisfactorily due to various problems that they are confronted with while running enterprises. In spite of having huge potential, the major problems faced by SSIs are given below:

**Problem of skilled manpower.**

The success of a small enterprise revolves around the entrepreneur and its employees, provided the employees are skilled and efficient. 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 SSIs.

**Inadequate credit assistance.**

Inadequate and untimely supply of credit facilities is an important problem faced by SSIs. This is partly due to scarcity of capital and partly due to weak creditworthiness of the small units in the country.

**Irregular supply of raw material.** Small units face severe prob-

lems 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 policies are other few hindrances for the small-scale sector.



Powerloom industry

**Absence of organised marketing.** Another important problem faced by small-scale units is the absence of organised marketing system. 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.

**Lack of machinery and equipment.** Small-scale units are striving hard to employ modern machineries and equipment in their production process 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 creates a major stumbling block for the growth of SSIs.

**Absence of adequate infrastructure.** Indian economy is characterised 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 infra-

manufactured and produced by small-scale units.

**Other problems.** Besides the above problems, small-scale units have been constrained by a number of other problems which include poor project planning, managerial inadequacies, old and orthodox designs and high degree of obsolescence. Due to all these problems, the development of SSIs could not reach a prestigious stage.

## Conclusion

Small-scale industrial sector contributes to the increase of industrial productivity and rise of national exports, generating more employment opportunities. This sector also contributes very impressively to the GDP. In view of this, the government of India has rightly recognised SSIs as the engine of growth for the present millennium.

For sustainable growth of the small-scale industrial sector, top priority should be given to financial support to SSIs. State and Central Governments should facilitate the growth of SSIs mainly by creating conducive environment for production and marketing of products and services of small-scale sectors.

By their less capital-intensive and high-labour absorption nature, SSIs have made significant contributions to employment generation and also to rural industrialisation. This sector is ideally suited to build on the strength of our traditional skills and knowledge by infusion of technologies, capital and innovative marketing practices. Small-scale sector has emerged as a dynamic and vibrant sector of Indian economy due to the new reforms. ■

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Table III  
**Magnitude of Sickness Amongst the SSI Units**

Year	Total sick units	
	Numbers	Amount outstanding (Rs million)
2000-01	249,630	45,060
2001-02	177,336	48,190
2002-03	167,980	57,060
2003-04	138,811	52,850
2004-05	138,041	53,800
2005-06	126,824	49,810
2006-07	114,132	52,670
2007-08	85,187	30,820
2008-09	103,996	36,190
2009-10	77,723	52,330
2010-11	90,141	52,110
2011-12	85,591	67,900

*Source: Reserve Bank of India, Annual Reports from 2001 to 2012*

structure adversely affects the quality, quantity and production schedule of the enterprises which ultimately results in underutilisation of capacity.

**Competition with 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 products