

Opportunities and challenges for small scale industries of India in a global economy

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Key Words

Small Scale Industries, small Industries Development bank of India, Globalization, National Commission for Enterprise in the Unorganized sector.

Abstract

Global economy is the one of huge market for any countries. It is the process of integrating various economies of the world without creating any hindrances in the free flow of goods and services, technology, capital and even labour or human capital and even labor or human capital global economy has led to an "unequal competition" a competition between giant MNC and dwarf Indian enterprises, The small scale sector is a vital constituent of overall industrial sector of the country also SIDO that is small Industry Development organization is working as an apex body just to assist active Government in the formulation and implementation of the types of schemes/ programs/ projects. And NSIC established by GOI is known as national small Industries Ltd, basically working for promoting and aiding the development of SSI and put its focus on the country commercial aspects. The respected industry has set up three institutes named as national Entrepreneurship Development Institutes to take care of every type of training modules, research and for providing consultancy services especially for the growth of SSI sector. The small scale sector is a vital constituent of overall industrial sector of the country. The SSI forms a dominant part of Indian industry and contributing to a significant proportion of production. Exports, and employment but by the another sides, unemployment is rising. The number of working poor is increasing. Businesses are going under concern is growing over the balance fairness and sustainability of the sort of globalization we have had in the run up to the financial crash. The International Labour organization, representing actors of the real economy that is governments, working together with representatives of employers and workers organization, is playing its role within the UN and multilateral system to support its constituents as they seek to weather the crisis, prepare for recovery and shape a new fair globalization therefore SIDBI (small industries Development Bank of India) is working as an apex body for SSI and provide financial assistance on regular interval through his different credit schemes In the same way NCRUS stands for National Commission for Enterprise in the Unorganized sector is working to recognize the problem of 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.

Introduction

The small scale sector has emerged during the last five decades as a highly dynamic sector of the Indian economy this sector now accounts for about 95 percent of industrial units and this is contributing about 40 percent of value addition in the manufacturing sector early 8 per cent of manufacturing employment and around 35 percent of total exports. The SSI is having 32 lakhs units which are spread all over the country producing nearly 7500 items and providing employment more than 178 lakh persons. The small enterprises not only play employment opportunities at lower capital costs than large scale industries but also helps in industrialization of rural and backward areas thereby reducing not only regional imbalances but

assuring more equitable distribution of nation income and wealth SSI units are complementary to large and medium scale units as ancillary units.

The Indian economy has initiate to concentrate on the development of small industrial base, which had contribute positively to the India's GDP growth is better than other developing countries with the developed small industrial sector. A Bop crisis in 1991 pushed the country to near insolvency in return for an IMF bailout, gold was transferred to London as collateral, the rupee devalued and economic reforms, (Liberalization, privatization, and Globalization) were forced upon India after the world economy was open to attack, the Indian economy has initiated to concentrate on the development of small industrial base, which had contributed positively to India's GDP. The main objective of the government was to transform the economic system from socialism to capitalism so that to achieve high economic growth and industrialize the nation for the well being of India citizens. Controls started to be dismantled tariffs, duties and taxes progressively lowered, state monopolies broken, the economy was opened to trade and investment private sector enterprises and competitions were encouraged and globalization was slowly embraced.

Recently, significant policy initiatives have created easy availability of financial assistance, incentives and subsidies and influenced many enterprises to start SSIs, This has resulted in growth in the number of SSI units.

Meaning of SSI

According to micro, small and medium Enterprises Development (MSMED) Act 2006, the micro, small and medium enterprises (MSMEs) are classified into two classes, namely, manufacturing enterprises that are engaged in manufacture or production of goods pertaining to any industry specified in the first schedule to the Industries (Development and Regulation) Act 1951 and service enterprises. The limit for investment in plant and machinery equipment for manufacturing/ service enterprises is shown in table.

Table:-
Limit for Investment in Plant & Machinery Equipment

Enterprises	Investment in plant & Machinery	
	Manufacturing Sector	Service Sector
Micro Enterprises	< 2.5million	< 1 million
Small Enterprises	> 2.5million but up to ` 50 million	> 1million but up to ` 20million
Medium Enterprises	> 50 million but < 1million	> 20million but < 50million

Investment in plant and machinery equipment for manufacturing/ service enterprises is shown in table.

Types of SSI

The available small scale Industries of manufacturing sector or the service sector in India are mainly divided into five types.

1. Manufacturing Industries:-

The industries that are liable for producing articles for processing called as manufacturing industries are popular examples of this category are power looms, khadi industries, engineering industries, processing industries, coin industries etc.

2. Ancillary Industries :-

This industry is liable for producing small to bigger parts of every component that are used to render services in big industries.

3. Service Industries :-

The well-known service sector is known for covering all light repair shops that are essential to maintain all types of mechanical equipments. This industry is also known for the complete dependency on machines.

4. Feeder Industries :-

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5. Mining or Quarries :-

The demand of minerals, different types of stones is increasing in the global market and so many mining projects are running just to meet the requirement of the masses. Today we can see many finding are in the process just in hunt of finding the right location for mining. Just because of increasing awareness on the issue of the environmental impact of these mining they have reduced its effect and trying to improve safety.

Major Features of the small Industrial Policy - 1991 :-

- a) Emphasis to shift from cheap credit to adequate credit
- b) Equity participation by other undertakings (both domestic and foreign) upto 24%
- c) Introducing of factoring services by banks.
- d) Marketing of mass consumption goods under common brand name.
- e) Setting up of sub-contractors exchanges
- f) Establishment of technology development cell.
- g) Opening of quality counseling and technology information centres.
- h) New technology up graduation programmes
- i) Opportunity to SSI in India Global economy:-

SSI in India can get some opportunities from global economy these are following.

1. ILO's Five Points Crisis Response for MSMEs :-

The ILO has developed a five point crisis Response to help existing MSMEs, weather the crisis and to support unemployed workers, including migrant, in creating self employment. The five points, detailed below.

P₁ :- Rapid assessments of the enterprise environment :-

The impact and severity of the crisis have caught employers, workers and policy makers by surprise, As such, a rapid assessment of the impact and how they are making enterprises vulnerable is an important first step in designing appropriate responses. The crisis has had a general impact on all economies around the world, but there are sectoral and geographical (region, country, within, country) differences. A rapid assessment will pinpoint problem areas.

P₂ :- Advice through examples for policy makers on access to finance :-

The ILO has produced this guide which in section 2 focuses considerable attention on the credit issue and provides a range of examples drawn from countries in various part of the world. These examples offer ideas for policy makers and social partners in other countries on how to take a proactive approach to unblocking the financing constraint. Each country will need to work out its own approach based on its own set of banking institutions (including development banks and small enterprise banks) and credit programs, and on its resources, expertise and regulatory environment.

P₃ :- Advice to Policymakers on public Procurement :-

The ILO promotes an approach to public procurement that seeks to both remove the constraints faced by MSMEs in gaining access to government contracts and by actively promoting these enterprises because of their high labour intensity. Many governments have responded to the crisis with demand stimulus measures that involve spending on public

works. With adequate access, MSMEs in relevant sectors, notably road and building construction, can compensate for the decline in demand from private clients with increased servicing of public sector customers. Other micro or small business, which are not or have not been able to secure public contracts, may benefit by supplying or sub-contracting with other enterprises that have. The ILO has a training program on public procurement by MSMEs that can be used to provide advice and ideas to policymakers.

P₄ :- Advice and training on business development services :-

Small enterprises need to cope with reduced demand in their traditional markets and develop products. And services for new markets and new opportunities arising during the crisis. For this they need help to 'think outside of the box' and take initiatives to ensure that instead of being entrepreneurs in crisis, they are entrepreneurial in the midst of the crisis. Entrepreneurship is a complex issue involving personal attributes, a supporting culture and an enabling policy environment. It can be assisted through training on how to start and manage a business.

P₅ :- Advice and training to strengthen enterprises associations :-

Enterprise associations can be a valuable support mechanism for businesses during the downturn. They allow members to share ideas and knowledge. Provides information on new policies and programs and advocate on behalf of their member's vis-a-vis governments. The effectiveness of such organization varies considerably depending on the ability to attract members, the level of funding and the leadership and management. The federation of small business in the U. K. and the Canadian federation of Independent Business are two of the many effective organizations around the world also The ILO ready to strengthen these associations through its training programs for small business association so that these associations can play a more active role during the down turn.

2. Industrial :-

Emergence of worldwide production markets and broader access to a range of foreign products for consumers and companies. Particularly movement of material and goods between and within national boundaries. For example- MNC, Domestic firm, etc.

3. Economic:-

Realization of a global common market based on the freedom of exchange of goods and services. The interconnectedness of these markets however meant that an economic collapse in any one given country could not be contained.

4 .Information:-

Increase in information flows between geographically remote locations. Arguably this is a technological change with the advent of fibre optic communications, satellites and increased availability of telephone and internet.

5.Competition :-

Survival in the new global business market calls for improved productivity and increased competition. Due to the market becoming worldwide, companies in various industries have to upgrade their products and use technology skillfully in order to face increased competition.

6.Cultural :-

Growth of cross- cultural contracts, it can make opportunities of new categories of consciousness and identities which embodies cultural diffusion the desire to increase one's standard of living and enjoy foreign products and ideas, adopt new technology and practices, and participate in a "world culture" some become the resulting consumerism and loss of languages. Also see transformation of culture, spreading of multiculturalism and better

individual access to cultural diversity. Some consider such imported culture a danger, since it may supplant the local culture, causing reduction in diversity or even assimilation. Others consider multiculturalism to promote peace and understanding between people.

7. Technical:-

Development of a global telecommunication infrastructure and greater transborder data flow, using such- technologies as the internet. Communication satellites, submarine fiber optic cable and wireless telephones, increase in the number of standards applied globally: e.g. copyright laws, patent and world trade agree.

8. Legal/ Ethical :-

The creation of the international criminal court and international justice movements also crime importation and raising awareness of global crime-fighting efforts and co-operation.

9. The main opportunities of small scale industries is that in this a company proprietor himself can make communication and contact with the employees of the company. Not only care but he can talk to them and try to find out about their problems. Sometimes according to the requirement they initiate to give them proper help and try to make them satisfied and these types of services and care make these employees happy and more sincere towards their job and responsibilities. Whereas in large industries things are available on large scale and very difficult to manage. There owner of the company has no time to talk to their employees and to know about their problems and requirements as they are many They behave like the professional and the entire work is governed by the related rules and regulations.

10. The biggest opportunity of small scale industries is that they create less harm to the environment and generate less pollution. If they use effluents then its quantity is limited that can be easily disposed after every use. Just because of limited strength they manage things beautifully and generally follow all related rules and regulations meant by the Government for them. However things are not manageable in case of large scale industries as they produce more influents, smoke and eating noise that comes from their heavy machinery also they produce massive contaminated water that is not possible to control so they increase hazards in environment. These days reports of severe environmental degradation is increasing day by day and only small scale industries are capable to balance the environment.

Table :

	Strength		Opportunities
1	Flexible Manufacturing System	1	Potential in sector such as leather products, light engineering products, auto components and ancillaries, garments including hosiery.
2	Lower cost of Production	2	Sector and stability of access under the WTO regime.
3	Low level of capital investment per unit of output and employment.	3	Phasing out of MFA.
4	Utilization of local resources.	4	Joint venture
5	Inherent ability to innovate	5	Technological obsolescence
6	Ability to make quick adjustments to the changing economic and trading scenario	6	Slow adoption of quality culture

7	Operation Flexibility	7	International environmental agenda which is in stark contrast to low emphasis by Indian firm.
8	Knowledge of internal markets	8	wth of cheap imports.

Source : ERG of small scale Industries (New Delhi) Bala 2007

Challenges to SSI in India in Global Economy

Small scale industries play a vital role in the economic development of our country. But small scale industries are not in a position to play their role effectively due to various constraints, and also various challenges faced by small scale industries.

1. Finance:-

Finance is one of the most important challenge to small scale industries. Finance is the life bold of an organization and no organization can function properly in the absence of adequate funds. The scarcity of capital and inadequate availability of credit facilities are the major causes of this factor also entrepreneurs due to weak economic base, have lower credit worthiness. Neither they are having their own resources nor are others prepared to lend them. Compare to MNCs.

2. Raw Material :-

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

3. Marketing :-

These small scale units are also exposed to marketing challenge. They are not in a position to get fist hand. Information about the market i.e. about the competition.Taste, liking, disliking of the consumers and prevalent fashion. 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.

Table :-Marketing problems faced by different categories of industries.

Marketing category of Industry	Sample units	Slackness in Demand	Price competition	Competition with large scale units	Competition with other products
Argo based Industry	10	4 (40%)	2 (20%)	3 (30%)	1 (10%)
Forest based Industry	15	3 (20%)	5 (33%)	4 (27%)	3 (20%)
Mineral based Industry	05	3 (60%)	-	1 (20%)	1 (20%)
Textile based Industry	30	5 (17%)	7 (23%)	13 (43%)	5 (17%)
Engineering based Industry	10	2 (20%)	1 (10%)	4 (40%)	3 (30%)
Chemical based Industry	10	3 (30%)	1 (10%)	5 (50%)	1 (10%)
Miscellaneous based industry	20	5 (25%)	3 (15%)	10 (50%)	2 (10%)
Total	100	25 (25%)	19 (19%)	40 (40%)	16 (16%)
Rank	II	III	I	IV	IV

Sources:- Complied by the researcher note, fissures in brackets indicate percentages to total.

4. Under Utilization of Capacity :-

Most of small scale units are working below full potential or there is gross under utilization of capacities. Large scale units are working for 24 hours a day. i.e. but small scale units are making only 40 to 50 percent use of their installed capacities. Various reason attributed to this gross under- utilization of capacities are problem of finance, raw material, power and under developed markets for their products.

5. 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 as compare to MNCs.

6. Project Planning :-

Small scale entrepreneurs is poor project planning. These entrepreneurs do not attach much significance to viability out of mere enthusiasm and excitement. 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.

Moreover, due to limited financial resources they cannot afford to avail services of project consultants. This result is poor projects planning and execution.

7. Infrastructure:-

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 drain age 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.

8. Other Challenges :-

Small scale units have been of constrained by a number of other challenges also. Managerial inadequacies old and orthodox designs.High degree of obsolescence and huge number of bogus concerns. Due to all these challenge the development of small-scale industries could not reach a prestigious stage.

Table

Weaknesses		Threats	
1	Inadequate capital for investment / expansion	1	Tariff reduction by all countries.
2	Inadequate working capital	2	Establish backward-forward linkages, both nationally and internationally
3	Expansive bank loan	3	Technology upgradation
4	Technologically weak due to inadequate capital	4	Inadequate use of information and communication technologies.
5	Weak bargaining power	5	Poor infrastructure support

Source :- ERG of small scale Industries New Delhi (Bala 2007.)

The Indian government has given due importance to 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.

Suggestions

Financial assistance and training programmes through the industrial promotional agencies (IDAs) must be improved in order to generate employment opportunity.

1. State a Decision Goal (“I believe you could also excel in the area of let’s discuss that, so you can decide”). The idea is to make good performers even better, to build strength on strength. Not to give the impression of a problem”
2. Credit rating agencies need to improve their credibility and promote this awareness amongst entrepreneurs. An affective monitoring mechanism, creation of credit rating facilities, adoption of standards for quality and environmental management, promotion of SME brands and development of appropriate capital markets can improve the situation.
3. Summarize and express your confidence in the person. Summarize what will happen next and what you will do to provide support. Express your confidence that the person can do more tasks/ work at a higher level of performance.
4. 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. But there should be fixed rules for this sector as compare to MNCs.
5. The banks must become more liberal to strengthen the SMEs and efforts are needed to achieve a high degree of success by focused programmes and policies.
6. Focus on cluster development and innovation must be encouraged.
7. Employment schemes :-
 - i) Brazil: - Duration of unemployment insurance benefits has been extended by two month.
 - ii) China:-Vocational training program for unemployed and migrant workers funded from unemployment insurance and related funds.
 - iii) Singapore:-Under a new Jobs credit scheme, employers of all size receive a cash grant for each regular employee.
 - iv) UK:-Companies will receive Rs. 2,500 for hiring workers who have been unemployed for more than six month.

Conclusion

SSI has emerged as a dynamic and vibrant sector of the economy. At the national level, this sector has performed extremely well and enables our country to attain industrial amplification and diversification to increase in employment and production but the major challenges faced by SSI are industrial sickness, non-availability of concessional loans, technological up gradation, delayed payments which are dearly seen through the reduction of their overall performance. The process of LPG has opened up new avenues and challenges for the SSIs. But this fact be denied that if the government will advertise the domestic products worldwide so that the foreign folk also go in for the ethic items produced here like khadi wool, gems, ornaments, silk etc. This step helps to enhance the foreign exchange reserve of Indian economy. The government is doing various efforts to make things simple and provides financial support to interested individuals. The government should channelize the skills and talents of people into business ideas which can be transformed into reality with small capital investment and almost nil formalities to start a small business.

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