

SMALL SCALE INDUSTRY: AN ENGINE OF GROWTH

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ABSTRACT

The small scale sector in India has particularly emerged as a vibrant and dynamic segment of the economy. The strategy of economic development of any country that formulate programmes for removal of poverty by providing large scale employment, education and training, capital formation, effective mobilization of resources, balanced economic growth, expansion of trade, transport and equitable distribution of national income with effective involvement and participation of all its citizens in the accomplishment of the goal, cannot neglect small scale industrial sector (SSI).

Second generation of economic reforms gave momentum to SSI with more relaxed regulatory framework to provide further impetus to growth. Indian economy has undergone transition phase witnessing the challenges of more free and market oriented environment of the liberalized era. One of the major growth drivers of the economy, the biggest challenge before SSI is not only to survive but also to grow and compete on a sustainable basis. This paper analyze the performance of Small scale industry in India and focus on policy changes which have opened new opportunities for this sector. Technology development and strengthening of financial infrastructure is needed to boost SSI and thus growth target can be achieved.

INTRODUCTION

The small scale industry sector, as an important segment of the Indian economy, accounts for around 95 per cent of the industrial units, 40 per cent of the manufacturing sector output, 36 per cent of exports and provides direct employment to 282.57 lac. persons in around 118.59 lakh registered SSI units in the country. The sector enjoys the pride of being second largest employer in the country and offers a wide spectrum of products for consumers and industry-users. The sector serves as a Greenfield for the nurturing of entrepreneurial talent enabling the small scale units to graduate into medium and large scale over a period of a time.

Certain special characteristics of the small-scale industries sector make it unique in the Indian Industrial scenario. These characteristics include the de-centralized nature of sector, its small size, greater reliance on locally available human and material resources, indigenous technology, employment intensity and its suitability in rural areas with limited use of techno-economic infrastructure. In order to promote industrial growth, as also to determine the patterns of

assistance to small industries for fulfilling socio-economic objectives, a series of six industrial Policy Resolutions/Statements has been issued by the Government of India in the last five decades. The type of incentives extended to the SSIs relate to financial, fiscal infrastructural and developmental aspects. These were targeted at achieving sustainable growth, alleviation of poverty and generation of employment.

The specific role of small industries was recognized in the industrial policy resolution of 1948, which started that cottage, and small scale industries are better suited for utilization of local resources and achievement of local self –sufficiency in certain type of essential goods. In the subsequent Industrial Policy Statements, adjustments were made to meet the changing needs of the economy, but the basic thrust remained unchanged.

The key planks of India's policy for the development of small industry have been reservation for production of specified items in the SSI sector, fiscal concessions by way of lower excise duties and other taxes, and extension of the competition from big companies by earmarking a large number of products for exclusive manufacture by them. Fiscal concessions are meant to be a support to take care of cost disadvantages arising out of the non availability the economics of scale. Extension of services by the Government was considered necessary in the absence of matching such services from the private sector. The objective of Government procurement from the SSI sector was to share the risk of first entry into the market by a small entrepreneur.

India started its process of integration with the global in July 1991. The Government has pursued far-reaching economic and structural reforms in all sectors of economy. The thrust of these measures has been to make the Indian economy internationally competitive. The liberalized policy of the Government has thrown open most of the industrial sector to private enterprise and foreign direct investment.

The new environment for SSIs consists of changes emerging from the ongoing process of economic reforms conforming to the WTO agreements and to the fast changing economic, technological and information environment Worldwide. In this process, the liberalized policy has posed certain challenges and provided opportunities to the small-scale sector. The challenges are in the form of increased competition; reduce protection due to lowering of tariffs, withdrawal of subsidies and incentives and market determined rate of interest. On the other hand, opportunities have come in the form of access to better technology, availability of variety of raw Materials and components, impetus to quality, efficiency and opportunity to restructure and diversify. The definition of small –scale industry at present is related to investment ceiling on the original value of the installed plant and Machinery. A small scale industry is defined as one having original investment in plant and Machinery ,whether held on ownership terms or on lease/hire purchase basis, not exceeding Rs 50 million (Planning commission 2005-06). Investment ceiling for small industry has been changed from time to time. Period wise investment ceiling limit for small scale industry is given in Table No.1

TABLE NO –1

| Period wise Investment limit of SSI in India | | | | |
|---|----------|------|-----------|------|
| Investment ceilings in Plant And Machinery | | | | |
| (Rs. Million) | | | | |
| Years | SSI | | Ancillary | |
| | Nominal* | Real | Nominal* | Real |
| 1966-67 | 0.75 | 0.95 | 1.00 | 1.26 |
| 1975-76 | 1.00 | 0.58 | 1.50 | 0.87 |
| 1980-81 | 2.00 | 0.85 | 2.50 | |
| 1.05 | | | | |
| 1985-86 | 3.50 | 1.06 | 4.50 | 1.34 |
| 1991-92 | 6.00 | 1.18 | 7.50 | 1.48 |
| 1997-98 | 30.00 | 3.17 | 30.00 | 3.17 |
| 1999-2000 | 10.00 | 1.02 | 10.00 | 1.02 |
| 2005-06 | 50.00 | 5.00 | 10.00 | 1.00 |

Source: - Ministry of SSI in India

Scope Of The Study

To study the performance of small scale industry in India, data covered from 1990-91 to 2007-08

OBJECTIVE OF THE STUDY

To analyze the performance of small scale industry in India with the help of few selected indicators.

RESEARCH METHODOLOGY

The study is based upon secondary information collected from various annual reports of MSME and SSI, some information is also collected from different issues of economic survey published by government of India and certain other important books and journals. The collected data has been presented in tabular form and various mathematical and statistical tools like percentage, average, and standard deviation, coefficient of variance and combined growth rate have been used for data interpretation.

SMALL SCALE INDUSTRY IN INDIAN SCENARIO

Small Scale sector is recognized as an instrument of social transformation enlarging employment opportunities and broadcasting entrepreneurship it occupies a place of importance in the economy of all labour surplus countries. The small scale industries had a specific role to play which was underlined by the industrial policy resolution of 1948. It was recognized that the healthy expansion of cottage and small scale industries depend a number of factors like the provision of raw materials, cheap labour, technical advice, organized marketing of their product and where necessary safeguards against intensive competition by large scale manufacture as well as education of the workers in the use of best available technique.

PERFORMANCE OF SMALL SCALE INDUSTRY WITH REGARD TO NUMBER OF UNITS

One of the important indicators to measure the growth of the economy is number of SSI units in the country. Table 1.2 shows the number of units from 1990-91 to 2007-08

TABLE: - 1.2

NO. OF SSI UNITS IN INDIA DURING THE YEAR 1990-91 TO 2007-08

| Sr. No | Year | SSI Units (In Lakh. Nos) | Annual Increase (in lakh no.) | % Change in Annual Increase |
|--------|---------|-----------------------------|-------------------------------------|--------------------------------|
| 1 | 1990-91 | 67.87 | | |
| 2 | 1991-92 | 70.63 | 2.76 | 4.066598 |
| 3 | 1992-93 | 73.51 | 2.88 | 4.077587 |
| 4 | 1993-94 | 76.49 | 2.98 | 4.05387 |
| 5 | 1994-95 | 79.6 | 3.11 | 4.065891 |
| 6 | 1995-96 | 82.84 | 3.24 | 4.070352 |
| 7 | 1996-97 | 86.21 | 3.37 | 4.068083 |
| 8 | 1997-98 | 89.71 | 3.5 | 4.059854 |
| 9 | 1998-99 | 93.36 | 3.65 | 4.068666 |
| 10 | 1999-00 | 97.15 | 3.79 | 4.059554 |

| | | | | |
|---------|---------|---------|---------|----------|
| 11 | 2000-01 | 101.1 | 3.95 | 4.065878 |
| 12 | 2001-02 | 105.21 | 4.11 | 4.065282 |
| 13 | 2002-03 | 109.49 | 4.28 | 4.068054 |
| 14 | 2003-04 | 113.95 | 4.46 | 4.073431 |
| 15 | 2004-05 | 118.59 | 4.64 | 4.071961 |
| 16 | 2005-06 | 123.42 | 4.83 | 4.072856 |
| 17 | 2006-07 | 128.44 | 5.02 | 4.067412 |
| 18 | 2007-08 | 132.4 | 3.96 | 3.0831 |
| Average | | 97.22 | 3.79 | 4.0093 |
| S.D | | 45.6296 | 0.8485 | 0.6954 |
| C.V. | | 45.5680 | 25.2538 | 19.45 |
| C.G.R | | 3.7821 | 1.0988 | |

Source: Annual Reports MSME

As per data given in Table 1.2 It has showed number of units, annual increase, and percentage change in annual increase in India. The small scale industry in India have increased at average annual increase of 3.79 lakh units and the average percentage in change in annual increase was 4.0093 percent. In 2007-08 there were 132.44 lakh units which were 100 percent approximate more than 1990-91, when the number of units was only 67.87 lakh units. It indicates that SSI sector has made good progress as far as the number of SSI units concerned. Small scale industry in India has increased at compound growth rate of 3.7821 percent. The annual growth rate has come down only during the year 2007-08 as compared to previous year in the present study. The annual growth in small scale industry in number of units is more than average annual growth rate after 2000-01 periods.

PERFORMANCE OF SMALL SCALE INDUSTRY WITH REGARD TO PRODUCTION

Production is another indicator to measure the performance of Small scale industries in India .Production level of small scale industry in India during 1990-91 to 2007-08 have been given in table 1.4

TABLE:-1.3

PRODUCTION IN SSI (CURRENT PRICES) IN INDIA DURING THE YEAR 1990-91 TO 2007-08

| Sr.No | Year | Production (Rs. Crore) | Annual Increase(Rs. Crore) | % Change in Annual Increase |
|---------|---------|------------------------|----------------------------|-----------------------------|
| 1 | 1990-91 | 78802 | | |
| 2 | 1991-92 | 80615 | 1813 | 2.300703 |
| 3 | 1992-93 | 84413 | 3798 | 4.711282 |
| 4 | 1993-94 | 98796 | 14383 | 17.03884 |
| 5 | 1994-95 | 122154 | 23358 | 23.64266 |
| 6 | 1995-96 | 147712 | 25558 | 20.92277 |
| 7 | 1996-97 | 167805 | 20093 | 13.60282 |
| 8 | 1997-98 | 187217 | 19412 | 11.56819 |
| 9 | 1998-99 | 210454 | 23237 | 12.4118 |
| 10 | 1999-00 | 233760 | 23306 | 11.07415 |
| 11 | 2000-01 | 261297 | 27537 | 11.78003 |
| 12 | 2001-02 | 282270 | 20973 | 8.026499 |
| 13 | 2002-03 | 314850 | 32580 | 11.54214 |
| 14 | 2003-04 | 364547 | 49697 | 15.78434 |
| 15 | 2004-05 | 429796 | 65249 | 17.89865 |
| 16 | 2005-06 | 497842 | 68046 | 15.83216 |
| 17 | 2006-07 | 562356 | 64514 | 12.95873 |
| 18 | 2007-08 | 624586 | 62230 | 11.065 |
| Average | | 351694 | 32004.94 | 11.46 |

| | | | | |
|-------|--|----------|----------|---------|
| S.D | | 385927 | 42721.27 | 6.1979 |
| C.V. | | 109.7339 | 133.41 | 92.7377 |
| C.G.R | | 12.1882 | 21.70 | |

Source: - Annual Reports of MSME New Delhi

On the bases of data given in Table 1.3 it has come out that the production at current prices have been increased at 12.1882 compound growth rate which is really remarkable. In 2007-08 production were ₹624586 crore as compare to ₹ 78802 crore production in 1990-91. The annual growth rate in production has come down during 1996-97, 1997-98 and 2001-02 respectively as compare to previous year. The percentage change in annual increase in production is maximum (23.64) during 1994-95 followed by 20.92 percent during 1995-96. The minimum percentage change in annual increase has been observed (2.30) during 1991-92 followed by 4.71 during 1992-93. It is revealed from data analysis that after economic reforms the number of units had increased but the production level is not increased according to the proportionate increase in number of units during 1991-92 and 1992-93 period.

TABLE:-1.4

PRODUCTION IN SSI (CONSTANT PRICES) IN INDIA DURING THE YEAR 1990-91 TO 2007-08

| Sr.No | Year | Production (Rs. Crore) | Annual Increase (Rs. Crore) | % Change in Annual Increase |
|-------|---------|------------------------|-----------------------------|-----------------------------|
| 1 | 1990-91 | 84728 | | |
| 2 | 1991-92 | 87355 | 2627 | 3.10051 |
| 3 | 1992-93 | 92246 | 4891 | 5.598993 |
| 4 | 1993-94 | 98796 | 6550 | 7.100579 |
| 5 | 1994-95 | 108774 | 9978 | 10.0996 |
| 6 | 1995-96 | 121175 | 12401 | 11.4007 |
| 7 | 1996-97 | 134892 | 13717 | 11.31999 |
| 8 | 1997-98 | 146262 | 11370 | 8.428965 |
| 9 | 1998-99 | 157525 | 11263 | 7.700565 |

| | | | | |
|---------|---------|--------|----------|----------|
| 10 | 1999-00 | 170379 | 12854 | 8.159975 |
| 11 | 2000-01 | 184401 | 14022 | 8.229887 |
| 12 | 2001-02 | 195613 | 11212 | 6.080227 |
| 13 | 2002-03 | 306771 | 111158 | 56.82547 |
| 14 | 2003-04 | 336344 | 29573 | 9.64009 |
| 15 | 2004-05 | 372938 | 36594 | 10.87993 |
| 16 | 2005-06 | 418884 | 45946 | 12.32001 |
| 17 | 2006-07 | 471663 | 52779 | 12.59991 |
| 18 | 2007-08 | 522942 | 51279 | 10.87 |
| Average | | 303835 | 26953 | 7.85 |
| S.D | | 309864 | 34402.16 | 5.4952 |
| C.V. | | 101.98 | 127.6376 | 70.001 |
| C.G.R | | 10.64 | 13.80 | |

Source: - Annual Report of MSME New Delhi

It is exhibited from table 1.4 that production at constant prices in India has increased at 10.64 compound growth rate. It has been revealed from table that production at constant prices have been increased from ₹ 84728 crore in 1990-91 to ₹ 522942 crore in 2007-08. The annual increase in production at constant prices has come down during 1997-98, 1998-99, 2001-02, 2003-04 and 2007-08 as compared to previous year. The percentage change in annual increase in production at constant prices is maximum (56.82) during 2002-03 followed by 12.59 percent during 2007-08. Minimum percentage change in annual increase in production at constant prices has found 3.10 during 1991-92. Due to economic reforms similar results have noticed in production at constant prices as well as in production at constant prices. The growth rates in production of small scale industry in India have been found exemplary.

PERFORMANCE OF SMALL SCALE INDUSTRY WITH REGARD TO EMPLOYMENT

India is the second most populous and seventh largest country in the world. Our country has plagued with major chronic problem of unemployment. This is due to the agrarian character of our economy base. Mahatma Gandhi had advocated small scale industry. Because small scale

industry is only the solution to tackle unemployment problem. Small scale industries have good potential for employment

TABLE:-1.5

EMPLOYMENT IN SSI UNITS IN INDIA DURING 1990-91 TO 2007-08

| Sr. No | Year | Employment no. (Lac. Persons) | Annual Increase (Lac. Persons) | % Change in Annual Increase |
|---------|---------|----------------------------------|-----------------------------------|--------------------------------|
| 1 | 1990-91 | 158.34 | | |
| 2 | 1991-92 | 165.19 | 6.85 | 4.326134 |
| 3 | 1992-93 | 174.84 | 9.65 | 5.841758 |
| 4 | 1993-94 | 182.64 | 7.8 | 4.461222 |
| 5 | 1994-95 | 191.4 | 8.76 | 4.796321 |
| 6 | 1995-96 | 197.93 | 6.53 | 3.411703 |
| 7 | 1996-97 | 205.86 | 7.93 | 4.006467 |
| 8 | 1997-98 | 213.16 | 7.3 | 3.546099 |
| 9 | 1998-99 | 220.55 | 7.39 | 3.466879 |
| 10 | 1999-00 | 229.1 | 8.55 | 3.876672 |
| 11 | 2000-01 | 238.73 | 9.63 | 4.203405 |
| 12 | 2001-02 | 249.33 | 10.6 | 4.440163 |
| 13 | 2002-03 | 260.21 | 10.88 | 4.363695 |
| 14 | 2003-04 | 271.42 | 11.21 | 4.308059 |
| 15 | 2004-05 | 282.57 | 11.15 | 4.108024 |
| 16 | 2005-06 | 294.91 | 12.34 | 4.367059 |
| 17 | 2006-07 | 312.55 | 17.64 | 5.981486 |
| 18 | 2007-08 | 326.25 | 13.70 | 4.3829 |
| Average | | 242.95 | 9.87 | 4.3547 |

| | | | | |
|-------|--|----------|--------|--------|
| S.D | | 118.7303 | 4.8436 | 0.0404 |
| C.V. | | 49.0023 | 47.14 | 0.9282 |
| C.G.R | | 4.097 | 2.2781 | |

Source: - Annual Reports of MSME New Delhi

It is observed from Table 1.5 that the total number of the persons employed in this sector has gone up from 158.34 lakh persons in 1990-91 to 238.73 lakh persons in 2000-01 to 326.25 lakh persons in 2007-08. It is cleared from Table 1.6 that the employment patterns have been changed at compound growth rate of 4.097. The annual increase in employment has come down during 1993-94, 1995-96, 1997-98, 2004-05 and 2007-08 as compared to previous year. The percentage change in annual increase in employment is maximum (5.98%) during 2006-07 followed by 5.84 percent during 1992-93. Minimum percentage change in annual increase in employment has found 3.46 percent during 1998-99. It is evident from table that small scale industries have achieved success to provide employment at large extent

COMPARATIVE STUDY OF SSI GROWTH RATE WITH OVERALL INDUSTRY GROWTH RATE

The small scale sector has maintained a higher rate of growth than the overall industrial sector. The comparative growth rates of production for both the sector are given below in Table 1.8

TABLE 1.6

GROWTH RATE WISE STUDY OF SSI IN INDIA

| Year | Growth rate of SSI Sector (%) | Growth rate of overall Industrial Sector |
|------|-------------------------------|--|
| 1993 | 5.7 | 6.0 |
| 1994 | 10.0 | 9.1 |
| 1995 | 11.5 | 13.0 |
| 1996 | 11.3 | 6.1 |
| 1997 | 9.2 | 6.7 |
| 1998 | 7.8 | 4.1 |
| 1999 | 7.1 | 6.7 |

| | | |
|------|-------|-------|
| 2000 | 8.0 | 5.0 |
| 2001 | 6.1 | 2.7 |
| 2002 | 7.7 | 5.7 |
| 2003 | 8.6 | 6.9 |
| 2004 | 9.96 | 8.4 |
| 2005 | 10.20 | 9.32 |
| 2006 | 10.76 | 9.85 |
| 2007 | 11.13 | 10.09 |
| 2008 | 11.65 | 10.52 |

Source: Annual Report MSME

It is indicated from Table 1.6 that growth rate of SSI Sector is comparatively more than overall industrial sector except in the year 1993 and 1995. The maximum growth rate of small scale industries in India has noticed 11.65 percent during 2008 year followed by 11.50 percent during the year 1995. Whenever minimum growth rate of small scale industries in India has observed 5.7 percent during 1993 year. During the year 1995 the growth rate in small scale industries in India was less than overall industrial growth. But in 1995 the growth rate of SSIs was second largest under the study period.

FINDINGS & RECOMMENDATIONS

The small scale industry in India have increased at average annual increase of 3.79 lakh units and the average percentage in change in annual increase was 4.0093 percent. It indicates that SSI sector has made good progress as far as the number of SSI units concerned. Small scale industry in India has increased at compound growth rate of 3.7821 percent. The Study indicates that production at current prices have been increased at 12.1882 compound growth rate which is really remarkable. In 2007-08 production were ₹624586 crore as compare to ₹ 78802 crore production in 1990-91. It is revealed from data analysis that after economic reforms the number of units had increased but the production level is not increased according to the proportionate increase in number of units during 1991-92 and 1992-93 periods. that the total number of the persons employed in this sector has gone up from 158.34 lakh persons in 1990-91 to 238.73 lakh persons in 2000-01 to 326.25 lakh persons in 2007-08. Study found that the employment patterns have been changed at compound growth rate of 4.097. The annual increase in employment has come down during 1993-94, 1995-96, 1997-98, 2004-05 and 2007-08 as compared to previous year.

It has been recommended that proper care should be taken care as for as human resources issues are concern as quality of the product depends upon the quality of HR. Training & development provisions should be followed by the small scale units for proper functioning. Proper tax benefits should be given to SSI to maintain their standing in the globalised market. To generate more employment opportunities special attention should be given on the development of SSI by the government. Special zones and clusters should be development to promote SSI and financial & technical assistance should be arranged for smooth functioning of SSI.

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