

## **Growth and Performance of Small Scale Industries in India: An Overview**

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### **Abstract:**

*Small Scale Industries (SSIs) are a vibrant and important sector of the Indian economy. It makes significant contribution to the annual GDP, exports and employment. In an environment of sustained high economic growth, economic reforms and opening of the Indian economy, the role and importance of the SSI sector has become more significant. This sector is characterized by low investment requirement, operational flexibility, location wise mobility, and import substitutions. Small-scale industries have been playing an important role in overall economic development of a country like India and have the advantage of providing gainful employment opportunities with low investment and reduce regional disparities through dispersal of industries into rural, semi urban and backward areas. This study makes an attempt to study the growth and performance of small scale industries in terms of increase in the number of working units, employment and investment levels in the recent past. This paper also tries to identify the problems faced by these units and the policy initiatives taken by the government.*

**Keywords:** Small Scale Units, growth, performance, employment, investment, policies.

### **Introduction**

Small-scale industries have been playing an important role in overall economic development of a country like India and have the advantage of providing gainful employment opportunities with low investment and reduce regional disparities through dispersal of industries into rural, semi urban and backward areas. This sector solves the problems of poverty and unemployment by providing immediate large scale employment with lower investment. The small scale industrial sector comprising micro and small enterprises has been recognized as an engine of growth all over the world. The Ministry of Small Scale Industries assists the states in their efforts to promote the growth and development of small scale industries to generate more employment opportunities and enhance their competitiveness. The Government of India has initiated several policies for the growth and development of small scale industries. The small scale sector has played a significant role in the economic development of the country during the past five decades. It has shown remarkable contribution to the overall growth in terms Gross Domestic Product (GDP), employment generation and exports. The strength of small-scale enterprises lies in their wide spread dispersal in rural, semi-urban and urban areas, fostering entrepreneurial base, shorter gestation period, and equitable distribution of income and wealth.

### **Components of Small Scale Industries**

- a) **Small Scale Industries :** An industrial undertaking is defined as a small scale unit if the investment in fixed assets in plant and machinery does not exceed Rs.10 million. The small scale units can get registered with the Directorate of Industries/District center in the State Government concerned.
- b) **An Ancillary Industrial Undertaking:** An industrial undertaking which is engaged or is proposed to be engaged in the manufacture or production of parts, components, sub-assemblies, rendering of

services not less than 50% of its production or services with an investment in plant and machinery not exceeding Rs.10million is termed as ancillary undertaking

- c) Tiny Enterprise: A tiny unit is one for which investment in plant and machinery does not exceed Rs. 2.5million, irrespective of the location of the unit.

### **Definition of Small Scale Industries**

Small-scale Industries are also known as small and medium Enterprises (SMEs) are an essential part of healthy economy. The concept and definition of small scale industries has been changing over years with the changing conditions of the Indian economy. The latest definition of small scale industries came into force in 2006 with the enactment of (MSMED) Act. According to this definition the manufacturing and service enterprises of small scale industries are defined as

**Manufacturing enterprises** defined in terms of investment in Machinery and Equipment (excluding land and building) classified into

- (a) Micro enterprises - investment uptoRs. 25 lakhs,  
(b) Small enterprises - investment above Rs. 25 lakhs and upto 5 crore  
(c) Medium enterprises - investment above Rs. 5 crores and uptoRs. 10 crores.

**Service enterprises** defined in terms of their investment in equipments (excluding land and building) classified into

- (a) Micro enterprises - investment up to Rs. 10 lakhs  
(b) Small enterprises - investment above Rs. 10 lakhs and up to Rs. 2 crores and  
(c) Medium enterprises - investment above Rs. 2 crores and uptoRs. 5 crores.

### **Overview of Indian Small Scale Industries**

Over the past five years the small scale sector has emerged as dynamic and vibrant segment of Indian economy. It provides employment and industrialization to rural and backward areas, there by promotes equitable distribution of national income and reduces regional imbalances. These small scale units harmonize the large scale industries by operating as supplementary units,which add to socio economic development. Small scale sector constitute of 36 million units, providing employment to over 80 million persons with a contribution of 8% to the Gross Domestic Product. Some of the leading industries of small scale sector are retail trade, manufacturing, apparels, manufacturers of foods and beverages, other service and business activities like hotels and restaurants, sales maintenance of motor vehicles and cycle, furniture manufacturing, fabricated metal etc. In addition to these there are three sub sectors constituting of food-processing-high potential because of agro-linkage, textiles-innovation and electronics-linkage with ITES.

### **Review of Literature**

**Khan** in his study found that there was an urgent need to review the labour provisions for small scale units to bring about simplicity and transparency. He suggested the Central Government should come out with a single comprehensive labour act for small scale sector. **Muraliselvan** in his article mentioned that SSIs in India creates the largest employment opportunities for the Indians, next to the agriculture sector but noted there are several problems faced by small scale industries such as lack of finance , lack of adequate raw material, scarcity of power and irregular availability power, poor marketing and transport facilities, lack of machinery and equipment andso on. **Thilaka** stated that one of the important problems of the small-scale industries was bank finance. The promotion of small scale industries was blocked due to restriction on term loan facilities. **Rudra Murthy** stated that availability of institutional finance has not met

the demand from the SSIs sector. The study suggested for setting up of an SSI mutual fund, more specialized SSIs branches and modification to suit the SSIs sector. Thillainayagam observed that large corporations could not do both production and marketing in an effective way, but could concentrate on international marketing of products only. Rolland Le Brasseur, indicated that the sales level achieved has positive correlation with the breadth of startup activities and range of expansion of activities. Vijay vayas, outlined the essence of the strategies for the survival and growth of new ventures. His study states that productivity, profit and growth of an enterprise are closely linked to its ability to innovate successfully.

**Objectives of The Study**

1. To identify the growth and performance of MSME:
2. To study the contribution of manufacturing output of MSME in GDP.
3. To understand various problems faced By MSME.

**Collection of Data**

Secondary data was collected from published and unpublished sources such as annual reports of MSME, GOI, DIC, and from various relevant journals, magazines, newspapers and websites.

**Tools of Analysis**

In order to analyze the growth and performance of small scale industries tables and bar graphs are used.

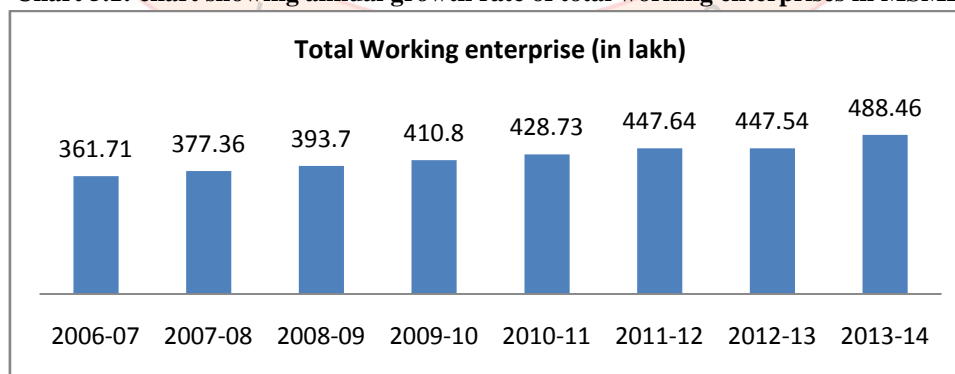
**Data Analysis**

**Table 5.1: Performance of MSME, Total Working enterprises Employment and Investments**

Sl.No	Year	Total Working enterprise (in lakh)
1	2006-07	361.71
2	2007-08	377.36
3	2008-09	393.7
4	2009-10	410.8
5	2010-11	428.73
6	2011-12	447.64
7	2012-13	447.54
8	2013-14	488.46

Sources: Annual report 2015-16, GOI, Ministry of MSME

**Chart 5.1: chart showing annual growth rate of total working enterprises in MSME**

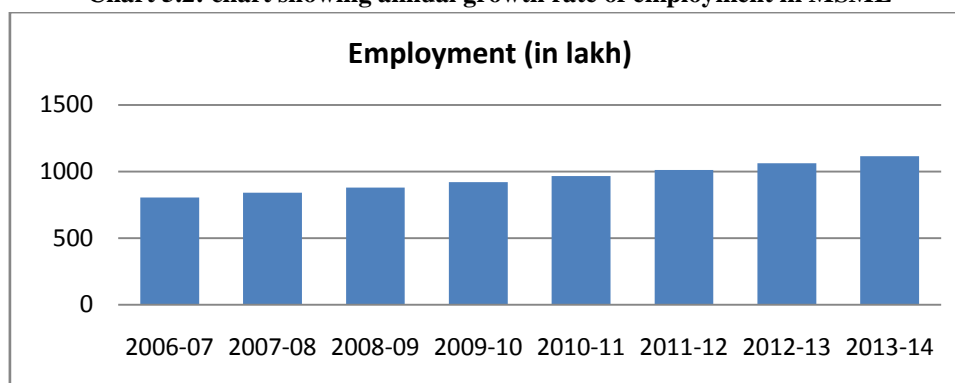


Sources: author's calculation

**Performance of MSME, Employment in lakhs**

Sl.No	Year	Employment (in lakh)
1	2006-07	805.23
2	2007-08	842.00
3	2008-09	880.84
4	2009-10	921.79
5	2010-11	965.15
6	2011-12	1011.69
7	2012-13	1061.4
8	2013-14	1114.29

**Chart 5.2: chart showing annual growth rate of employment in MSME**

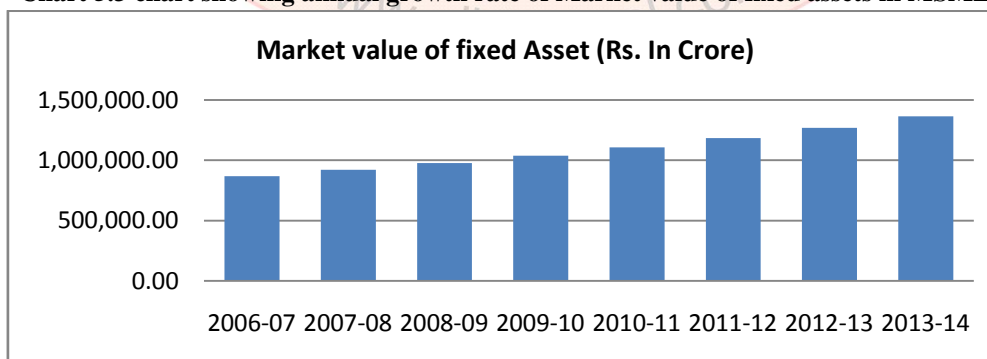


Sources: author's calculation

**Performance of MSME, Market value of fixed Asset (Rs. in Crore)**

Sl.No	Year	Market value of fixed Asset (Rs. In Crore)
1	2006-07	868,543.79
2	2007-08	920,459.84
3	2008-09	977,114.72
4	2009-10	1,038,546.08
5	2010-11	1,105,934.09
6	2011-12	1,182,757.64
7	2012-13	1,268,763.67
8	2013-14	1,363,700.54

**Chart 5.3 chart showing annual growth rate of Market value of fixed assets in MSME**



Sources: author's calculation

### Findings of The Study

The finding of the study reveals that there is a significant increase in the number of working enterprises, in the level of employment provided by these units and the market value of the fixed assets of these units.

- The number of working enterprises has increased from 361.71 lakhs in 2006-07 to 488.46 lakhs in 2013-14.
- The level of employment has increased from 805.23 lakhs in 2006-07 to 1114.29 in 2013-14.
- The market value of fixed asset has increased from 868,543.79 in 2006-07 to 1,363,700.54 in 2013-14.

### Problems Faced By Small Scale Sector In India

Small Scale Sector contributes significantly to Indian economy through creating employment, production, innovation and development and enriching entrepreneurship skills. However the small scale sector is not away from facing problems. Some of the problems faced by the Small Scale Sector include

- Delayed payments by the large industry players
- Absence of timely credit
- Low Return on Investment (ROI)
- Low production and productivity
- Inefficient marketing strategies
- Non-identification of new markets
- Hurdle in expansion & innovation, lack of warehousing,
- Ruthless competition
- Decline of exports

### Government Policy Initiatives

The government of India has taken certain policy initiatives to assist the industries in the small scale sector. Some of these policies are

- Implementation of MSME development Act 2006, which provides rules and regulation for MSMEs.
- Reservation and de-reservation of products for manufacture in MSME sector to achieve socio economic development, enhancing technological and achieving economies of scale.
- National manufacturing competitiveness program – to build sustainable capacity, overcoming global competitiveness and healthy growth through eight components which includes: incubator, intellectual property awareness, quality management, technology up gradation, marketing assistance, design expertise and promotion of ICT.
- Public procurement policy through implementation of technology in tenders
- E-governance – to facilitate employment, virtual cluster, share database, B2Bporta and mobile friendly website.

### Conclusion

- The study reveals that there is a significant increase in the number of working enterprises, employment and market value of fixed assets of the small scale sector. The study also states that the contribution of MSME to GDP in the manufacturing and service sector increased to only to a little extent. However inspite of the measures taken by the government to improve the productivity the small scale sector contribution to GDP has not increased to acceptable level.
- Thus it is suggested that the government has to adopt certain new approaches like integrated policy, efficient governance, promote skill development, accessibility to credit through government agencies particularly to MSMEs, to increase productivity and contribute to economic growth.

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