

LIBERALIZATION AND COMPETITIVENESS OF SSI IN INDIA

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INTRODUCTION

Empirical studies have shown that small-scale enterprises are an important vehicle for meeting the objectives of developing economies, growth and equity with social justice. In the Indian context, they play a key role in the economic development of the country. What is more, they also act as a breeding ground for entrepreneurs. In the post independence period, as many as 18 million entrepreneurs have established enterprises in this sector and contributed to the advancement of industry in the country. More importantly, it is a stepping stone for entrepreneurs to grow from small to big. It provides in plant training to millions of entrepreneurs and motivates them to become innovative entrepreneurs to improve the economy. As such, development of small-scale industries should be given special attention.

Small-scale industries contribute significantly to social and economic development objectives such as labour absorption, equal income distribution, rural development, poverty eradication, regional balance and promotion of entrepreneurship. In fact, they play an important role in the process of a country's industrial development.

Particularly in developing countries, small labour-intensive industries have been favoured basically to create employment opportunities in an economy with abundant unskilled labour even though such industries may not always be supported on grounds of economic efficiency. In addition, a low capital requirement, given an appropriate market environment, is believed to stimulate growth of numerous indigenous industries with wide regional dispersal. This helps to promote balanced growth, more equitable income distribution, increased utilization of national resources, etc. The process, if properly nurtured, can help the entrepreneurial class and boost capital formation as well as growth of industries in the small sector not only in urban but also in rural areas as well. Such a process creates the basis for transformation of technology, management and paves the way for creative development while sustaining national heritage and skills. It will also pave the way for the growth of right type of entrepreneurship in the country.

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Promotion of small-scale industries has been one of the main strategies for economic development in India since 1950s. The special feature of the planning in India is that it does not stop at giving conceptual emphasis to the growth of small scale industries, but it has in particular drawn up a concrete and constructive planned programme to attain the planned objectives. The development of small-scale industries as the focal point of industrial development is the evidence of the awareness of the Government to propagate and develop this sector.

REVIEW OF LITRATURE

Dr. J.S. Juneja- “Creative Marketing : a Strategic Tool for SMEs” Udyog Yug . He found that SMEs have become an essential factor in the development process in both developing countries and developed countries in transition. Their large number (accounting for more than 90 percent of all enterprises in the vast majority of countries) and their involvement in a wide variety of activity – ranging from providing goods and services to the poor, to the manufacture for exports- underline the particular economic and social importance of SMEs. SMEs provide a breeding ground for entrepreneurs. Through the “demonstration effect”, they spawn new enterprises. They use small resources and play an important role in mobilizing and generating domestic savings.

D.E.Ramakrishanan –“Small and tiny enterprises perspectives in the new millennium” - Udyog Yug. He reported that a small and tiny unit by the small level of operation is unable to set apart a large reserve of capital. This causes insufficient internal generation of funds for the small and tiny unit. Therefore the need for outside assistance especially from the Banks and financial institutions in meeting the credit needs of the small and tiny units assumes great significance for the growth and survival of this vital and vibrant sector.

S.S. Kanka – “Ethical Entrepreneurship”. He stated that entrepreneurship development of small scale industries. And, development of small scale industries is good and beautiful on various counts. It generates large scale employment with relatively low capital, promotes more equitable distribution of national income, and makes use of untapped capital and human skills.

Pulak Mishra & Ramakanta Prusty- “Developing Entrepreneurship in India”¹¹. They Stated that during the last two decades while rapid technological progress has made the production process more knowledge and/ or capital intensive across a wide range of industries, limiting the creation of new employment opportunities particularly for the unskilled work forces

downsizing policies of the firms through mergers, acquisitions and other restructuring exercises have put the future of their existing employee.

RESEARCH METHODOLOGY:

The present study is based on secondary data which is to be collected from Annual Report of SIDBI, Banks, financial institutions, reports of committees & study groups, appointed by the Government District Credit Plans, Plans prepared by the planning Commission, books and magazines published on the subject a list of which is given in the bibliography at the end

The policy in which some items were completely meant to be manufactured by the small enterprises has now become obsolete and incompetent. Examining the results the effect of this greatly contentious scheme, researchers have pointed out the problem of practical incompetence of goods produced under reserved class in contrast to the non-reserved class of goods (Balasubrahmanya, 1995; and Morris *et al.*, 2001). Studies have also proved the irrationality and irrelevance of putting some goods in the category that is meant to be completely manufactured by small enterprises.

A number of the usual matters concerning the reserve list are: (i) repeated revision (addition and deletions) of listed goods were not reasonable every time and believed to have been manipulated by political considerations; (ii) attempts to make policy wide-based were careless because investigations have revealed that broad-basing, as surveys found that manufacturers of 'reserved' products did not have any inkling about the policy; (iii) the medium and large scale units were also engaged in producing some 'reserved' items as they were manufacturing them before their inclusion in the list; and (iv) in most of the cases the quality of items which were reserved was substandard (Das, 2006: 116-117).

SMEs in India are not competitive enough when it comes to international market due to several reasons. These are- they are not easily adhered to the laws, lack of suitable knowledge regarding measures for global subcontracting, unfamiliarity with complex routine processes relating to external trade on international front and making use of e-commerce for executing deals. For increasing the awareness of MNEs towards increasing their investments in India particularly in the fields like garments, automobiles, electronics, chemicals, etc a decent change in the norms concerning FDI is made. This change is quite different from the earlier policies. Some administrative steps are also been taken so as to establish strong link between SMEs and foreign business.

The objective of SMEs has changed over a period of time. It was known for creating job opportunities earlier but now SME sector is developing in such a way so that it becomes more

competitive in the international market. The SME sector in India is moving towards a new direction where it is positioning itself in the bigger and fresh market. Currently the proficiencies, raw materials and huge market to target are the three main advantages for the SME sector. Seeing the growth of the market the people who will be associated with this sector will surely be benefited.

SMES AND EMPLOYMENT GENERATION

The job generation capacity of the small scale enterprises were focused by two studies in 1970s. The first study made use of cross sectional data for calculating the job share of small units and found some appealing proof that shows that the relevance of small scale units is increasing because of the reduction in the share of big enterprises in the total employment. On the other hand the second study uses size and area of the enterprises for calculating the same. (Acs and Audretsch , 2001).

These two studies show that the job generation capacity of small unit enterprises is increasing rapidly. Economists at that time use various tools to prove this point. They counted the number of people employed in the same category in two different periods. This line of analysis was based on the presumption that movement between different classes was insignificant. On the other hand, according to study done by Birch it was found that the increase in the total employment is due to the conversion of small units into large enterprises. Birch's method of analysis was later challenged by Davis, Haltiwanger and Schuh in 1996.

The increase in the employment in small units may be reflected in two ways- By the reduction in the jobs opportunities in the big enterprises or increase in the job opportunities in the small enterprises. Hence a careful analysis of generation of jobs at the unit levels should be done so as to find the reason behind the increase in job opportunities. Despite of higher job generation rate in small enterprises its contribution to the overall scenario is small as compared to bigger organizations. Furthermore these studies also help in analyzing the factors that creates differences in the generation of jobs between small and big enterprises.

While designing the policies for the SMEs the output and the business environment should be kept in mind. The data based study is more effective in the establishment and development of the SMEs. This study is based on the fundamental principle that the small enterprises are the only job creating sector for the industrialized economy even in the times of recession.

We cannot apply our understanding of enterprises to the whole economy as there are differences in the industrial and service sector enterprises. The number of job changes in the service sector is quite higher as compared to the industrial sector. Other factors that cause

differences between these two sectors are manpower requirements, rates of entry and exit, periodic variations in demand, differences in the capability of facing external competition.

In some other region it has been stated that elsewhere that jobs generation business replacement (settled businesses) is a lot higher (lower) significant in businesses of service sector compared to the manufacturing one (Armington and Acs, 1999; and Audretsch et al. , 1998). In order to confirm whether the overall scenario is similarly applicable in all segments, we proceed to work out the provision to job generation and part of small enterprises in total number of jobs in different sectors such as manufacturing, construction and services.

According to Audretsch (1995), Audretsch and Thurik (2001) and Acs and Audretsch (2001) the businesses these days are now more technology driven due to internationalization and technical changes. The business involving information technology has become more beneficial and the main attention in these businesses is on the person and not on the company. This is due to the fact that the lack of regularity in the knowledge results in the varied opinions by the company and the person. This kind of situation led the person to make a shift from the company where he is working to his own business. This is the evolution stage of entrepreneurship where a person applies his knowledge which he earns in one company into his own business. The small and big enterprises in the service segment differ in the pattern of creation of jobs.

According to the conclusion drawn from the study it was found that for the generation of jobs both big and small size enterprises are important. The rapid increase in the employment of the small sector in other industrialized economy makes it more important part of the economy and distinctive approach should be adopted while making policies for this sector. As it is known that small enterprises acquire relatively higher price towards organizational hindrance as compared to big organizations so it is important for small units to follow governmental guidelines. The financial procedures should also need to be eased in order to provide easy credit to small units so that they can meet their business requirements effectively

Small enterprises are presently seriously handicapped in comparison with larger units by an inequitable allocation system for scarce raw materials and imported components, lack of provision of credit and finance; low technical skill and managerial ability; and marketing contracts. It is, therefore, essential to develop an overall approach to remove these disabilities.

1. OUTPUT vs EMPLOYMENT

One argument is that the emphasis on employment is irrelevant, as the basic thing is the output that the economy needs for its growth. From this angle, it is contended that, since the

productivity of these industries is low compared to that of large industries, the small industries simply waste the capital which is very scarce, and which, if diverted to large industries, can produce more. From this viewpoint, small industries are more capital-intensive. It is also argued that the labour-productivity in the small industries is also small compared to large industries.

2. ADVERSE EFFECT ON CAPITAL FORMATION

It is also contended by some that small industries have unfavourable consequences on saving and capital formation. They argue that the establishment of these industries will, over a period of time, reduce the availability of capital for large-scale industries with higher productivity of capital.

First, it will happen because capital, used inefficiently in the small industries, will not be available for large-scale industries.

Second, these industries being labour-intensive, use a major proportion of the sale proceeds of output to pay workers whose marginal propensity to save is low. As a result, a large part of their incomes will be used for consumption resulting in a lower rate of saving and capital formation for the economy.

3. INEFFICIENT PRODUCTION

Another charge against these industries is that the cost of production is higher than in the large industries, because these industries suffer from several inefficiencies. No doubt, the fact of large scale entails, what is described as *economies of scale*, lowering the costs.

4. LARGE SICKNESS

There are two main issues in respect of sick SSIs: (i) existence of a large number of sick units which are non-viable; and (ii) rehabilitation of potentially viable units. As far as former is concerned, there were 1, 67,980 sick SSI units as on March 31, 2003. These units are those that had obtained loans from banks. An amount of Rs. 5,706 crore was blocked in these units. Of these, as many as 1,62,791 units with outstanding bank credit of Rs. 4,569 crore were identified by banks as being non-viable. As far as the latter issue is concerned, of the 1,67,980 sick SSI units as on March 31, 2003, only 3,626 units with outstanding bank credit of Rs. 625 crore were found to be potentially viable by the banks.

5. SEVERAL DIFFICULTIES:

It is thus obvious that these industries, despite their importance in the economy, are not contributing to their full towards the development of the country along the desirable lines. It is because these are beset with a number of problems concerning their operations. These may be described as under:

- Inadequacy of finance: A serious problem of these industries is in respect of credit both for long-term and short-term purposes. This is evident from the fact that the supply of credit has not been commensurate with their needs associated with fixed and working capital.

TRENDS OF LENDING BY BANKING SECTOR TO SSI

Rs. in Crores			
As at end March	Total advances by Banking Sector	Total Advances to SSI Sector	Proportion of SSI to Total Advances
1999	246203	42674	17.30
2000	292943	45788	15.63
2001	469153	56002	1.94
2002	536727	57199	10.66
2003	669534	60394	9.02
2004	764383	65855	8.62
2005*	972587	76114	7.83

Source : RBI Report on Trend and Progress of Banking in India

* Provisional

- Difficulties of Marketing: These industries are also up against the crucial problem of marketing their products. The problem arises from such factors as small scale of production, lack of standardization, inadequate market intelligence, competition from technically more efficient units, etc. Apart from the inadequacy of marketing facilities, the cost of promoting and selling their products too is high.

CONCLUSION

According to the study conducted by Weigand and Audretsch (1999) on the non science category it was found that the number of employees in big companies who work in stock exchanges reduces at a rate of minus 1 percent. Per annum. The SMEs also shows the reduction of 3.97% per annum in the number of jobs. In case of non listed big companies this rate was 4.60% while for SMEs (non listed) it was 1.26%. Hence it was observed that in Germany there is a reduction in the number of jobs in the sectors like- big science-based

businesses, big non-science based businesses, and small non-science based businesses. Apart from this reduction in the number of jobs there is one sector which experienced the increase in the number of employees that sector is science based small and medium sized businesses.

Thus from the above data it can be inferred that the entrepreneur business creates different job opportunities in Europe and United States. On both shores of the Atlantic Ocean small and new businesses play a pivotal role as motive force of jobs generation (European Commission, 2002). It can also be said that the employment opportunities of any business varies according to its size and its age.

The process of globalization is altering the pattern of vying for all activities of enterprises, making it necessary to adopt a worldwide growth plan to affirmatively influence their long-standing development and endurance (Karagozoglou and Lindell, 1998). The small enterprise segment business sector has grown to be more significant as it has risen to become a leading power influencing the development of financial systems of countries (Shridhar, 2006). In the process of their change to a global milieu SMEs confront many intrinsic drawbacks (Chen and Huang, 2004). SMEs often faces lack of resources and unavailability of capable workers due to their small size. With worldwide economic integration and the fall in barricades of international trade, globalization of SMEs is getting more and more consideration (Lu and Beamish, 2001; Knight, 2001). The enterprises are becoming more competitive due to the rapid increase in the number of enterprise in the global trade arena. More rivalry in the markets causes decrease in the capability of SMEs to have power over the course of their own growth (Etemad et al., 2001). In an extreme cutthroat situation, it becomes imperative to recognize and appreciate aspects that affect global functioning (Kuivalainen et al., 2004). SMEs symbolize a segment of increasing significance and make a vital contribution in the progress of developing countries particularly in the fields of jobs generation and accelerating economic advance (Kula and Tatoglu, 2003). Initially any industry is tiny and have limited resource base but it grows with time and always tries to transform itself from tiny to large industry. Competition, technical variations and legislative guidelines are some of the factors that are important for both industrialist and policy creator.

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