

## COMPETITIVENESS OF SMALL-SCALE INDUSTRIES IN INDIA (AN ANALYSIS IN THE CONTEXT OF LIBERALISATION)

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### INTRODUCTION

Competitiveness is a multi-dimensional concept. This is evident, for instance, in the analysis of its nature, types and levels in manufacturing industries and trade by Kathuria (1995), Narayana (1993), National Productivity Council (1999), Siggel (2001), Government of India (2002), Banwet et al. (2002) and Gowswami & Dollar (2002). Competitiveness describes the ability of Small-Scale Industries (SSIs) to generate income/output and maintain employment levels in the face of domestic and global competition. Consequently, in the absence of competitiveness, SSIs may face the problem of sickness or closure. Hence, all policy efforts to enhance and strengthen competitiveness will have implications for preventing both sickness and closure of SSIs. Policy literature on India's SSIs in post-WTO includes Government of India (1997), SIDBI (2001) and Government of India (2001). These studies do emphasise the role of infrastructure and business environment for the growth and competitiveness of SSIs. However, these studies were carried out at a national level of aggregation. Given the importance of sub-national level planning for industrial development in general, and for development of SSIs in particular, there is a policy need to carry out regional (or State level) and intra-regional (or intra-State) study on determinants of competitiveness in India. This type of studies will have the potential to deliver policy implications to correct for inter-regional imbalances, because they are related to competitiveness of SSIs. The main thrust of this chapter is to understand and introduce the concept of competitiveness and small scale industry in India.

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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.

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.

## **THE MAIN OBJECTIVES OF THE DEVELOPMENT OF SMALL-SCALE INDUSTRIES ARE:**

To create vast employment opportunities for the people; to effect decentralization of industries by creating industrial estates; to effect a redistribution of economic power as well as income; and to raise the standard of living of the people. These objectives mainly follow the principle of the ideal goal of a “Welfare State. The objectives in theory, aim at developing the country on the basis of the principles of social justice and social welfare.

The main objectives of the programme of the development of small scale industries, therefore, are the creation of maximum amount of job opportunities, including self employment; ventures with small investment; production of consumer goods on a large scale, mobilization of local skill and capital; and dispersal of units into semi urban and rural areas.

The 1956 industrial policy resolution puts forth arguments in favour of small-scale industrial units; (a) the employment argument; (b) the equality argument; (c) the latent resources argument; and (d) the decentralization argument.

**The Employment Argument:** The argument is based on the assumption that small scale industrial units are labour intensive comparatively and thus create more job opportunities per unit of capital employed. It is argued, therefore that leaving aside highly capital intensive industries involving the most sophisticated technology and the building up of economic and social infrastructural facilities, it is the small enterprises which help enlargement of job opportunities. This is particularly important for a labour surplus economy like India suffering from acute problems of unemployment, underemployment, and seasonal unemployment.

**The Equality Argument:** The equality argument suggests that the income generated in a large number of small enterprises be dispersed more widely in a community than income generated in a few large enterprises. Thus the income benefit of small enterprises is derived by a large segment of the population, while large enterprises encourage monopoly capital and concentration of economic power. In this way, small enterprises bring about an equalitarian distribution of income and wealth than do the large-scale enterprises.

**The Latent Resource Argument:** This argument suggests that small enterprises are able to tap latent resources like entrepreneurial ability, hoarded wealth, etc. Small enterprises encourage the growth of a class of small enterprises, which introduces a dynamic element in the economy. The growth of a very large number of small firms during the three and a half decades of planning highlights the fact that given a favourable environment, the latent resources of entrepreneurship can be tapped by the growth of small enterprises only.

The decentralization argument: This argument impresses the necessity of dispersal of industries. Location of large enterprises is conditioned by inflexible environment factors. If the industrialization is to progress in an atmosphere of decentralization, setting up of small-scale industrial units must be encouraged, as their locational requirements are often flexible. Decentralisation also helps in tapping local resources, such as raw materials, idle savings, and local talents, etc. also helps industrialization of backward areas.

In developing countries, small-scale industries can play a main role in the achievement of national economic and socio-political objectives. The principal economic objectives of a number of developing countries include an increase in the supply of manufactured goods, promotion of capital formation, development of indigenous enterprise and skills, and creation of employment opportunities. Their main socio-economic goals include decentralization of manufacturing activity and reduction in regional imbalances within the country. Their major socio-political aims include wide distribution of socio-economic and political power, creation of opportunities for people with initiative, to be self-reliant and acquire the knowledge to organize and operate a factory or other small-scale enterprise. Achievement of these objectives is seen as desirable in almost all developing countries, though the relative importance of these objectives varies from country to country, depending on the differences in the socio-economic and political complexes.

In India, the States have taken a great interest in the development of small-scale industries. It renders two kinds of assistance to them, viz., financial and non-financial. The state assists the small-scale industries to (i) improve their techniques of production and management; (ii) Provide credit facility, both for investment and for working capital, (iii) To provide common services facilities.

In order to co-ordinate these activities the Central Government set up a Small Scale Industries Board, appointed a Development Commissioner for Small-Scale Industries and established Regional Small Industries Service Institutes and a National Small Industries Corporation.

## **LITERATURE REVIEW**

**Pardeep S. Shehrawat and Parmila** – “Prospects of Small Scale Agro-Processing Industries through Entrepreneurship Development” :- They reported that as a rapidly growing third world Country, India has been taking careful steps and measured steps in its diverse development efforts over the years. The small-scale industrial sectors has been accorded

adequate importance and constitutes an important and crucial segment of the industrial sector.

**Dr. S.S Aggarwal** –“Preparing Indian SSIs Meet Global Challenges”<sup>3</sup>. He examined that post WTO era has thrown a lot of opportunities particularly for small-scale industries. Now the world is one small village and small-scale industries while sitting at home can do their worldwide marketing. The E-Commerce has given a very potential tool in the hands of small-scale industries of India.

**Dr. M.M. Goel** –“Excellence Model for Management of Small Scale Industries in India” Udyog Yug. He stated that to develop appropriate and suitable manpower in SSI in the modern world of consumerism, we need to provide them suitable training in all aspects of HRD. The sincerity, dedication and enthusiasm of the manpower in the SSI in the changing economic scenario of Liberalization (L), Privatization (P), Globalization (G) means LPG is the need of the day. For which he justifies feminization of SSI through ‘SHE’, ‘ASK’, and ‘MCA’ model.

**Dr. P.R. Kulkarni** –“Rehabilitation of Sick SSI Units –A New Approach” Udyog Yug . He identified that sickness and increasing NPAs in small and medium/large enterprises are a phenomenon which is not unique not only to India. Everywhere in the world industries are facing tough competition which is taking its toll. The increasing sickness has been causing concern to policy maker because of the production assets lying unutilized/underutilized, the huge assistance from financial institutions/banks locked up in these units, and the adverse impact on employment in the event of their closure.

**Prime Minister’s Speech** –“National Conference on Small Scale Industries” Udyog Yug . He says that I am happy to note that more and more small scale units are opting for ISO 9000 certification. To encourage total quality management, we have decided to continue, for the next six years, granting Rs. 75,000 to each unit that obtains ISO 9000 certification.

We have also decided to give one time capital grant of 50% to Small Scale associations who wish to develop and operate testing laboratories, provided they are of international standard.

**Prof. R.K.Rana and Suparn Kumar**-“ Small Scale Industries and Economic Reforms” Udyog Yug . They stated that in India, a major reforms process has been under way since July, 1992 to liberalise the regulation on domestic economic transactions. Some of these reforms are the abolition of licensing requirements for the majority of industries, opening of hitherto reserved areas of public sector to the private sector, reduction in price controls, reforms in capital markets, etc.

## **WORKING GROUPS FOR THE ELEVENTH FIVE YEAR PLAN (2007-2012) ON MICRO & SMALL SCALE ENTERPRISES AND AGRO & RURAL INDUSTRIES**

### **Micro & Small Scale Enterprises and Agro & Rural Industries**

In the context of the preparation of Eleventh Five Year Plan (2007-2012), it has been decided to set up a Working Group on micro & small enterprises (MSE) sector, consisting of the traditionally defined small scale industries and small scale service and business entities, on the one hand and khadi, village and coir industries, on the other.

The terms of reference and composition of the Working Group will be as follows:-

#### **(I) Terms of Reference:**

- i. To deliberate on the basic aspects of the approach to the Eleventh Plan (2007- 2012) relating to development and growth of SSE and tiny sector as well as conceptual issues, keeping in view the ongoing process of economic liberalization, WTO regime, Regional Trade Agreements and other comparable large countries impact on Indian economy.
- ii. To critically appraise the policies, programmes and achievements of SSI sector, including small scale, khadi, village and coir industries, in relation to production, employment (both direct and indirect) and exports during the Tenth Plan period and to analyze the reasons for shortfalls, if any, and suggest appropriate remedial measures.
- iii. To suggest a policy framework and corresponding measures (schemes/ programmes) for the micro and small (manufacturing) enterprises, consistent with social and economic objectives of the Eleventh Plan for the sector with particular reference to employment generation, technology upgradation (for modernization, productivity improvement, higher competitiveness and, hence,) exports, supportive credit policies and practices, marketing support, training need of entrepreneurs, etc. Monitorable annual targets for each area may be suggested for the Eleventh Plan. Attention may also be given, in this context, to policies and measures (schemes/programmes) for MSEs engaged in provision of services and expansion of self employment opportunities through them, incentives for both manufacturing and service MSEs to graduate to medium enterprises, and enhancing competitiveness of MSEs to enable them to face the challenges of globalization, regional free trade agreements, etc.

- iv. To suggest measures (schemes/programmes) for increasing the productivity of individual workers/artisans/entrepreneurs as well as their groups/clusters through training, better access to improved tools, equipment and processes, provision of common facilities, facilitating compliance with prescribed quality standards, etc.
- v. To suggest measures for dispersal of small scale industrial activities, particularly in relatively backward states/areas, hill areas, rural areas and effective reduction of regional imbalances in industrial growth.
- vi. To suggest a policy framework and corresponding measures (schemes/programmes), on the lines of ii) above, for MSEs in the khadi, village and coir industry sectors.
- vii. In the light of the physical targets suggested for the Eleventh Plan period for production, employment and exports, to make estimates of Plan outlays required for promotional/developmental schemes and the investment required in the sector to achieve the above targets.
- viii. To assess the extent of synergy between Government (Central as well as State-level) agencies, on the one hand, and voluntary and other organizations, particularly MSE associations, on the other and recommend strategies and measures for strengthening the latter and improving their interface with the former on a collaborative-participative and sustainable basis.
- ix. To assess the requirements of institutional finance/credit(term loan as well as working capital ) for projected growth of the entire MSE sector and meeting the sub-sectoral targets, suggest measures for ensuring actual delivery of credit accordingly and also recommend innovative financial instruments and corresponding legislative and implementation mechanism to encourage and enable the MSEs to acquire corporate and/or limited liability partnership status and access capital markets, venture capital funds, etc.
- x. To review the existing Central and State-level facilities for training and entrepreneurship development for both first generation and operating MSE entrepreneurs, estimate the gaps noticed during the Tenth Plan period and suggest measures to meet the requirements in quantitative and qualitative terms for the Eleventh Plan.
- xi. To recommend effective marketing strategies and corresponding measures (schemes/programmes) with a view to address the issues of (a) regular availability of critical/scarce raw materials, (b) expanding markets of MSEs (both SSI and ARI segments) products and services within the country and outside, particularly the latter

- (i.e exports),(c) the role of consortia, State Small Industrial Development Corporations, NSIC, Khadi Commission, State Khadi and Village Industries Board , large trading houses etc. (d) more accurately quantifying the direct and indirect exports by the sector, (e) suggesting annual targets of exports by the sector during the Eleventh Plan and (f) corresponding support measures.
- xii. To review the existing mechanisms for data collection, planning and monitoring at the Central, State and Local levels and recommend measures to improve them with a view to build up and regularly updating a comprehensive database for the entire MSE sector.
  - xiii. To review the working of the existing R&D institutions and suggest (a) measures for their reorganization, revitalization and linkages with counterpart/corresponding R&D establishments in defence, electronics, material sciences, nanotechnology etc, on the one hand and universities, colleges, IITs, TIFAC etc. on the other and (b) suggest appropriate time-bound R&D programmes and technology missions and mechanisms for their dissemination, delivery, commercial application and patenting to/by the user MSE.
  - xiv. To review the existing strategies and measures for commercial linkages of MSE with medium and large enterprises and recommend appropriate strategy and mechanism for incentivizing medium and large enterprises as well the MSEs to build sustainable vendor development and quality upgradation networks.
  - xv. To examine the feasibility and desirability of bringing all MSE products under quality certification by upgradation of quality standards, testing facilities, etc.
  - xvi. To identify key areas and explore ways for implementing Public-Private Partnership model in identified areas for sustainable development of sector.
  - xvii. To review the existing coverage of developmental schemes/ programmes for SC/ST/Minorities/Women engaged in the sector and to suggest specific measures for their upliftment and promotion.
  - xviii. To make such other recommendations as are considered appropriate.



**(II) Composition of the Working Group**

1.	Secretary, Ministry of SSI and A&RI	Chairperson
2.	AS&FA, Ministry of Industry	Member
3.	Director General, Bureau of Indian Standards (BIS)	Member
4.	Adviser (I&VSE)/Representative of Planning Commission	Member
5.	Chief Executive Officer, Khadi & Village Industries Commission	Member
6.	Chairman, Coir Board	Member
7.	Joint Secretary, Ministry of SSI	Member
8.	Joint Secretary, Ministry of A&RI	Member
9.	Jt. Secretary, Dept. of Banking, Ministry of Finance	Member
10.	Jt. Secretary, Ministry of Rural Development	Member
11.	Joint Secretary, Dept. of Development of North East Region	Member
12.	Joint Secretary, Ministry of Social Justice & Empowerment	Member
13.	Joint Secretary, Ministry of Women & Child Development	Member
14.	Joint Secretary, Ministry of Minority Affairs	Member
15.	Secretary, Dept. of Industries, Govt., of Maharashtra	Member
16.	Secretary, Dept. of Industries, Govt., of Punjab	Member
17.	Secretary, Dept. of Industries, Govt., of Uttar Pradesh	Member
18.	Secretary, Dept. of Industries, Govt., of Orissa	Member
19.	Secretary, Dept. of Industries, Govt., of Karnataka	Member
20.	Representative of the Council of Scientific & Industrial Research (CSIR)	Member
21.	Adviser, Small Scale Industries, North Eastern Council	Member
22.	CMD, National Small Industries Corporation	Member
23.	CMD, Small Industries Development Bank of India	Member
24.	President, Federation of Association of Small Industries of India (FASH)	Member
25.	President, Indian Council of Small Industries	Member
26.	Chairman, All India SSI Committee, FICCI	Member
27.	Chairman, All India SSI Committee, CII	Member
28.	Chairman, All India SSI Committee, ASSOCHAM	Member
29.	Chairperson, Consortium of Women Entrepreneurs of India	Member
30.	Secretary, Gandhigram Trust	Member
31.	Convenor, Khadi Mission	Member
32.	De. Ramakrishnan, President, Industrial and Financial Reconstruction Association for Small and Tiny Enterprises	Member
33.	General Secretary, Federation of Indian Micro, Small and Medium Enterprises (FISME)	Member
34.	President/Secretary, Federation of Association of Cottage and Small	Member

	Industries (FACSI)	
35.	President, Federation of Industries and Commerce of North Eastern Region (FINER)	Member
36.	President, Industrial and Financial Reconstruction Association for Small and Tiny Enterprises (IFRASTE)	Member
37.	President, All India Association of Industries (AIAI)	Member
38.	President, Madhya Pradesh Laghu Udyog Sangth (MPLUS)	Member
39.	President, Association of Lady Entrepreneurs of Andhra Pradesh (ALEAP)	Member
40.	Chairperson, Federation of Indian Women Entrepreneurs (FIWE)	Member
41.	Chairman, Padiyur Sarvodaya Sangth, Padiyur Sarvodaya Sangth, Padiyur, Kangayam (Tamil Nadu)	Member
42.	Chairman, Gujarat Khadi Gramodyog Mandal, Gandhi Ashram	Member
43.	Secretary, Gram Swarajya Parishad, Rangiya, Assam (KVI Institution)	Member
44.	Secretary, Kelakkakara South Coir Vyavasaya Cooperative Society, Thirukunnappuzha	Member
45.	AS&DC (SSI)	Member-Secretary

(VII) Shri Shashi Kant , Deputy Adviser , Planning Commission, Room No. 332, Yojana Bhawan (Tel: 23096765) will act as a Nodal officer and any further communication in this regard may be made with the Nodal officer.

## CONCLUSION

The small enterprises have variety of products and huge offerings but due to the fact that the goods produced in the small enterprises are not of superior quality and are made mainly for Indian rural and semi urban population so its contribution to the total exports is not defensible. The goods in the small enterprises are mainly from artisans, handicrafts, handlooms etc.

The biggest limitation for the small enterprises is the lack of favourable credit policy. The Reserve Bank of India (RBI) and the Ministry of Finance has taken some steps to encourage the small enterprises. They have given directives to the commercial banks to ease credit facility for small scale enterprises. But this step is not working for small enterprises since banks are controlled by RBI and the nature of instructions posed by RBI and the absence of an incentive system based on accomplishment of proactive bankers is not allowing the commercial banks to smoothen the credit policy for small enterprises. According to a study

“there are strong structural underpinnings to the inadequate flow: the organizational structure of banks, and processes within them, have taken them far from task orientation, and have created a specific bias against small loan portfolios” (Morris *et al.*, 2001: 11). The small scale enterprises are finding it difficult to take loans from the banks due to the tight RBI directives. Although some commercial and other financial organizations are helping SMEs by introducing some loan assurance schemes for them.

## REFERENCES

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- 4) Prime Minister’s High Level Task Force Report on MSMEs, Government of India, January 2010
- 5) Reserve Bank of India - Master Circular on Lending to MSME Sector – number RBI/2011-12/83, RPCD.SME & NFS. BC. No. 09/06.02.31/ 2011- 12 dated July 1, 2011
- 6) Reserve Bank of India Report on Trend & Progress of Banking in India 2010-11 (Sector-wise NPAs of Domestic Banks – Table IV.18)
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