Chapter 1
INTRODUCTION

1.1 The Problem

The small-scale industry is a vibrant segment of the Indian economy. The new policy framework which is emerging is more outward oriented, less protective and more flexible in terms of strategies. The insulation of small scale sector from the pressures of competition, both domestically and internationally, may not continue. Will they survive the next phase of global competition? What are the high growth sectors that are likely to emerge in the next few decades? Is any change required in institutional framework to make this sector fulfill its full economic potential? The role of the state is being redefined in economies throughout the world. The govts are emerging as facilitator of the business. Their role is becoming more of regulating business instead of controlling it. In a highly skewed wealth distribution in India, simple technologies could be more appropriate in the production of products with basic attributes meeting the demand from low-income consumers. Small scale industry may be able to use such technologies successfully with low capital labor ratios, while larger capital intensive firms catering to the high income segment may use more mechanized technologies to produce the products with such attributes as demanded by wealthier consumers. On the other hand, small enterprises sometimes produce such products which belong to the luxury segment of the market and the large firms may not be able to supply such goods. Labor in large industries is priced well above the levels at which it is used in small enterprises. At the same time capital is generally cheaper for the larger firms. Higher wage
facing the large firms is generally compensated by higher efficiency of the work force so that wage cost per unit of labor is much lesser than the observed difference in the price of capital. Higher productivity over the long run would more than compensate for higher wage. Productivity differences rather than labor legislation are at the heart of wage differences by firm size. Equity consideration requires that small industry should be promoted. But distribution of labor earning may not improve if the small-scale sector merely expands horizontally at the unchanged level of earnings. It is important that there is an increase in labor productivity in the small-scale industry so that a large percentage of labor force could graduate to the middle-income group. Lack of technological progress leads to slower growth of productivity and wages in the long run and hence hurt the welfare of low-income earners whose interests are supposedly being promoted. The concept of small-scale sector has been widened to include small businesses and service enterprises. There is strong evidence to suggest that SSEs beyond the initial stage of development are capable of tackling competition from large companies in India and abroad. Their strengths are flexible managements, prompt response to market demands and customized products. In a supportive business environment, SSEs should therefore, be expected to fend for themselves. Adequate supply of credit, services, technology assistance, infrastructure and low transaction costs should be the hallmarks of the strategy for promotion.

Small-scale industry has substantially contributed towards export earnings of India. But as with other Asian developing countries, continuing the success of this sector will depend on small-scale industry’s ability to move into technologically more advanced and sophisticated product lines. One of the
key issues facing the small scale sector in India has been the expected surge in imports following the phase out of quantitative restrictions. Several items, which were reserved exclusively for the SSI sector, are now brought under open general license (OGL). It may be expected that imports of these commodities are likely to increase over the next few years. Products and processes, consumer preferences and technologies are changing at a fast pace. How is the SSI sector positioned today in terms of its major characteristics? More focused and sustained interventions are needed to prepare the SSI sector for the challenges ahead and to take full advantage of the liberalized trade environment. The size and diversity of our country poses the biggest challenge and opportunity, given that the development of small scale industry is desirable on both allocative efficiency and equity considerations particularly in the new technological and market scenario.

What major instruments of policy are available with the govt. to promote small scale sector? And are they effective in today’s environment?

The reservation of specified product lines for the small-scale sector has been central to Indian policies for the development of this sector. Reservation based policies have persisted in the manufacturing sector for a long time. The fundamental difficulty with reservation as instrument of policy is that it does not discriminate between production units on the basis of their efficiency, current or potential. So the problem can be subdivided into following areas.

(a) Is small scale sector in India well positioned to face the onslaught of globalization, liberalization & privatization?
(b) Are our present policies having the desired efficiency and efficacy to support small scale sector to achieve its full potential?

(c) Does this important sector of economy needs new policy interventions to face the competition?

1.2 Survey of Literature

This survey was divided into following distinct areas of interest

(a) General problems and prospects of small scale enterprises.

(b) Evaluation of the performance of financial institutions which are supporting the small scale sector.

(c) Financial problems faced by the small scale sector of the economy.

(d) Analyzing the role played by the financial institutions.

(e) Problem of sickness of small scale sector.

Even as back as in 1984, the task force on small scale industries found that available subsidies and concessions are not distributed to eligible units at right time. The literature available also shows that the efforts of govt. have not met with the same degree of success in different parts of the country nor have they removed the basic weaknesses of small scale sector. Literature survey was done encompassing not only countries in Asia like India, Sri Lanka, Philippines but also included countries in Africa like Ghana, Nigeria, Sierra Leone because of the similar challenge of creating employment opportunities. Survey also covered the concept of clusters and collective efficiency because of the importance of external economies. Along with the passage of time, as the Indian economy grew and became more mature, the characteristics of the
problems facing small scale sector also were undergoing change. There has been a decline in the household industries. The problem of technology upgradation is becoming more important to face the challenges of competition. This becomes very critical if we consider the fact that about one third of our exports originate from small scale enterprises. A detailed survey of literature is carried out in chapter-2

1.3 Justification of the Study

It is clear from the survey of literature that although many research studies have been done concerning the problems of small scale sector in pre-liberalization era & immediately after this, not enough research work has been done recently in such an important area of our economy. The demographic advantage we talk of, can be brought about only if we are able to convert the human beings into human capital and then employ the same capital for higher growth trajectory. This research work is an effort in the above direction. This study is an attempt to find out whether our policy and institutions are strong enough to support the small scale sector to achieve its desired growth. The growth in this sector is an essential element for inclusive growth which is required if we have to reduce income inequality. This study is also an attempt to see if further policy interventions are required for this segment of economy. The contribution of services sector of the economy is increasing at an accelerating rate. This was also the reason to change the name of small scale industry to small scale enterprises. Much of the earlier research has been dealing with small scale industry sector rather than small scale enterprises.

1.4 Objectives and Hypotheses
It is a recognized fact that generally small scale industry sector suits the special conditions of our economy i.e. large employable population, shortage of capital, inequitable distribution of income among the different parts of the country, high local entrepreneurship etc. Policy interventions to support small scale industry by the govt. have been successful to some extent at the macro level of the economy. But under the ever changing environment of falling trade barriers, removal of quantitative restrictions and the policy of phasing out reservation of items for manufacture by the small scale sector, do the present intervention policies serve the desired purpose of support to small scale industry for its further growth? Do we need different polices for these segments or are the same policies for all segments a better option. Do we need different implementation agencies under one umbrella organization? What are the overall utilization levels of this institutional support system?

The following hypotheses have been set up for verification:

Hypothesis 1: A predominant proportion of small scale industry support system goes grossly underutilized.

Hypothesis 2: Capacity to avail and utilize those facilities is positively correlated with the size of the firm.

Hypothesis 3: Marketing and implementation of small scale industry promotional schemes has significant correlation with their utilization at the unit level.

1.5 Methodology of Analysis

This research is deductive in nature because first the hypotheses are developed and then the research strategy is designed. Research strategy is a
general plan of how to answer the research questions that have been set. What matters is the strategy that is appropriate for the research questions. Determining sample size is a very important issue because samples that are too large may waste time, resources and money, while samples that are too small may lead to inaccurate results. The theoretical sample size according to the formula \( n = \frac{pq}{(\sigma_p)^2} \) came to be 295. In reality I will get 400 questionnaires filled. The pilot test will be done in three stages. The first stage will be done by some academicians to see whether the factors of the study agree with the prevalent factors in the environment. The next stage will be done by becoming sure of the simplicity of the questionnaire. So, 20 questionnaires will be given to the owners of small scale industry to see whether the questions are understandable or not. In this phase I will be beside each owner during the filling process and I will take notes of all of their comments. After doing the pilot test some editing will be done. The secondary data from DC-MSME will show us the effectiveness of these schemes at macro level from the perspective of institutions which are implementing support schemes for this sector of the economy.

The analysis will be divided into three parts i.e. descriptive statistics, deductive statistics. Descriptive statistics will be shown with the help of pie charts. The variables under study will be subjected to Cronbah Alpha test of reliability to measure the degree of reliability of each question. The relevant deductive statistics consisting of correlation and regression are done. The entire hypothesis will be tested for their conformity or otherwise. The data may throw light on many other conclusions apart from the hypothesis of our research study. Then a brainstorming session is proposed with the experts of NSIC and SIDO along with trade associations to discuss the provisional
findings of the study. A final list of policy implications and conclusions will be arrived at. Analysis may also throw light at research gap for further research in this field.

1.6 Sources of data

Appropriateness of our strategy to suit the hypothesis calls for primary as well as secondary data. Primary data will serve our purpose to study the utilization and effectiveness of the govt. support policy, structures and systems on different segments of small scale sector at the user end. This data will be collected by survey method from a sizeable population. The data will be collected from Faridabad cluster of small scale industries. The data will be based on questionnaire so that this can be standardized and will allow easy comparison. As the research questions in this study concern owners of small scale enterprises, so the sampling frame is a complete list of all owners of small scale industry in Faridabad available in the form of Directory of small scale industry.

1.7 Limitations of the study

The main limitations of this study are the constraints of resources, access and time. The financing requirements and the material resources needed for a larger sample size for this study were not possible. It was also not feasible to have access to more clusters for the purpose of this research work. The conclusions of this study are based on the assumption that respondents have given truthful answers to the questions asked in the questionnaire. Many owners and chief executive officers of the enterprises refused to answer the
questions related to the financial figures. This may have resulted in the sample not remaining purely random, because we went to those organizations that were cooperative in answering the questions. Because of larger sample size validity of conclusions becomes better. Another limitation was imposed by skewed distribution of manufacturing and service enterprises in favor of more manufacturing enterprises. In spite of these limitations, the care was taken to ensure the sample to be as random as feasible and answers to be true as humanly possible. Hence it is believed that in spite of the limitations imposed by the environment the results will not be affected by the data.

1.8 Chapters Organization

Chapter 2 Literature Review

In this chapter, the survey was done in terms of difficulties faced by MSMEs in the areas of working capital, investment capital, trade capital, technology up gradation, sickness in this sector and human resource management. Literature related to the evaluation of the performance of financial institutions which are supporting the small sector was also reviewed. The literature available shows that the efforts of the government have met with partial success at the macro level. Even this success rate is not uniform across all the regions of the country. A detailed literature review is explained in this chapter.
Chapter 3 Present status of small scale industry

Over the years the MSME Sector in India has developed into a highly heterogeneous sector producing a wide variety of goods. These include simple consumer goods at one extreme to electronic control systems, microwave components and other precision products on the other end. MSMEs are playing significant role within supply chain system and are established in almost all major sectors of the Indian economy. MSMEs are having very important role in leather, leather goods, textiles, plastic products, pharmaceuticals, engineering, toys, gems and jewellery, food processing etc. The detailed description of MSMEs present status is given in this chapter.

Chapter 4 Institutional support systems and mechanisms

Looking at the importance of MSME sector a Council on Micro, Small and Medium Enterprises has been set up under the chairmanship of the Prime Minister to lay down policy guidelines and review the development of the MSME sector. The National Manufacturing Competitiveness Programme (NMCP) is the nodal programme of the government of India for developing global competitiveness among Indian MSMEs through improvement in their process designs, technology and market access. This programme has following ten components

I. Building awareness on Intellectual Property Right for MSMEs.

II. Support for entrepreneurial and managerial development of SMEs through incubators.
III. Enabling competitiveness through quality management standards and quality technology tools.

IV. Mini tool rooms under PPP modes.

V. Support for Bar Code Programme.

VI. Lean Manufacturing Competitiveness Programme.

VII. Promotion of information technology.

VIII. Design Clinics Scheme.

IX. Marketing Assistance and Technology up-gradation Scheme.

X. Quality and Technology up-gradation Scheme.

The details of different support systems already existing is described in detail in this chapter.

Chapter 5 Data analysis and results

In the present study, we will use correlation analysis to study the correlation between the level of loan utilization and the impact of demographic variables. Regression analysis is used to find the relationship between independent variables like micro, small and modern enterprises and dependant variable which is the utilization of support system. The detailed analysis of data and its results are shown in this chapter.

Chapter 6 Policy implications and conclusions

In this chapter the conclusions of this study are given. The hypothesis is tested and policy implications are suggested. The suggested policy implications relate to the areas of separation of micro from small and
medium enterprises, cluster development, Ancilliarization, changing role of
government etc. Looking at the importance of this sector, many research
gaps have also emerged which can become further areas of research.
REFERENCES


