CHAPTER - VII

SUMMARY, FINDINGS AND CONCLUSION

7.1 INTRODUCTION

The small scale industry (SSI) sector has emerged as a highly vibrant and dynamic sector of the Indian economy. It has made significant contribution towards building a strong stable national economy. In an economy with a pre-dominant primary sector and agriculture depending on the monsoon, such a diversification has to be in the direction of industrial sector in general and small-scale sector in particular. Although agriculture is the backbone of our economy and the largest contributor to G.D.P, too much dependence on this sector is unwise. In spite of the fact that millions of people depend on agriculture, this sector is unable to absorb all and provide productive employment. There is a widespread disguised unemployment in this sector. In view of this, there is a need to diversify economic activities and shift the disguised unemployed from agriculture to other sectors where they can be productively employed. Small-scale sector is one such sector that is labour intensive and hence provides scope to absorb such labour.

Industrial development becomes incomplete without the development of small-scale industries, since this sector provides opportunity to utilize the abundant manpower and unexploited resources. Accordingly, in the process of reshaping and developing the Indian economy into prominence, importance of the small-scale sector can be gauged by the account given by SIDBI. According to SIDBI, there were 19 lakh small-scale units in the country where about 438 lakh persons were employed whereas just 45 lakh persons were engaged in the large and medium scale industries.
Small and Medium Enterprises (SMEs) have emerged as an engine of growth in several developed and developing economies of the world. In India also they have emerged as a vibrant and dynamic component of Indian economy by virtue of their significant contribution to GDP, industrial production and exports. However, the most important contribution of this sector is towards employment generation, which is second only to agriculture.

Since market imperfections exist in credit, capital and labour market, leading to non-optimal size of SSEs, there is need for hand holding and specially tailored policies and programmes for the development of this sector. In India, the SSI sector has acquired a prominent place in the socio-economic development of the country during the last 55 years, particularly since the beginning of planning era. Currently, this sector constitutes 95 per cent of the industrial units and contributes 40 per cent of industrial output and 35 per cent of national exports.

This achievement has been possible due to the consistent and sustained policy support from the government including policy of reservation, fixation of investment ceiling for the SSI sector, priority lending, fiscal support and marketing support. The economic reforms started in 1991 in India further strengthened the commitments and have provided the opportunity for this sector to grow big. The share of exports from SSI in relation to the total national exports increased from 2.1 per cent in 1984-85 to 35 per cent in 1997-98. In absolute terms, the exports have increased from Rs. 11,744 crore to Rs. 44,442 crore in 1997-98 and further to Rs. 86,013 crore in 2002-03.

However, with the removal of Quantitative Restrictions and lowering down of import duties, the sector is now exposed to increased competition both globally and domestically. The hitherto protection of the SSI sector by way of reservations and various preferential supports have been removed to a greater extent. More than 160 items, which were reserved for the SSI sector, have been de-reserved. Many of the de-reserved items such as readymade garments, leather goods and rice milling are those
which have been playing important role in terms of production, employment and exports. Some de-reserved items are those, which have vast potential in terms of exports such as toys, auto components and packaging materials.

After 1990-1991, the government has initiated a comprehensive restructuring of the economy by way of New Economic programmes. Through privatization, liberalization and globalization the government sought to accelerate the industrial development at a faster rate. Although a number of studies have been carried out in the post liberalization period on the large industrial development, adequate analysis of the growth and development of small-scale sector especially with reference to Kerala has not been made.

Most of the studies were focussed on the performance of SSI at the national level; while the issues related to the size, growth, structure and productivity of small industries at the state level have received inadequate attention. Under the process of restructuring Indian Economy, liberalization and decontrols have put the small enterprises in a critical juncture. Therefore, any change in policy related to small industries require elaborate studies on their growth and performance.

Primary data as well as secondary data were used for the present study. The period on which the study was conducted was from 1986-87 to 2006-07 (Primary data) and 1986-87 to 2002-03 (Secondary Data). Secondary data were collected from the office records and reports of the Ministry of Statistics and Programme Implementation, Ministry of Small Scale Industries and Ministry of Industry and Commerce etc.

In order to measure the impact of liberalization on the small scale enterprises, certain parameters, namely, number of registered units, production level, investment on fixed capital, sales turn over, exports, employment generation and earnings were used for the present study. The National level data, State level data and data from sample studies of district levels were compared to find the impact of economic reforms on small scale industries.
Primary data were also collected from the sample small scale enterprises from four districts each from Karnataka and Kerala respectively. These districts were purposively selected for the study on the basis of diversified small industrial expansion and proximity. The sample enterprises included the electrical and electronic product, metal industry, building materials, rubber products, printing and binding, Jewellery and Gold, Handicrafts, Garments, Agro-processing, catering, Bakery, Mineral Water, Marine products and Ayurvedic medicines. A sample of 90 small scale enterprises from the districts which were involved in the study were randomly selected and the sample entrepreneurs were administered with a pre-tested questionnaire. Besides these, two successful units were selected for further case studies from each state. The collected secondary and primary data were analysed using suitable statistical techniques like percentage analysis, correlation, student’s t-test, regression etc.

Kerala is industrially a backward state. However, the small-scale industries have always found a place of prominence in the economy of the state due to their low investment and high potential for employment generation. The growth momentum of this sector in recent years has been phenomenal. The study tried to focus more on development of small industries in the Kerala economy through various agencies, policy formulations of the state, planning development, entrepreneurial skill and export potential. The findings of the study are summarized below.

7.2 FINDINGS OF THE STUDY

- The small scale industries sector plays a vital role in the growth of the country. It contributes almost 40 percent of the gross industrial value added in the Indian economy.

- The small scale sector has grown rapidly over the years. The growth rates during the various plan periods have been very impressive. The number of small-scale units has increased from an estimated 23.88 lakhs units in the year 1993-94 to over 35 lakhs in the year 2002-2003.
When the performance of this sector viewed against the growth in the manufacturing and industry sector as a whole, it instills confidence in the resilience of the small scale sector.

As highlighted from the third chapter onwards, the growth of small enterprises during the past eight years was on an average of 8.9 per cent while in the industrial sector it was 6.7 per cent. It has been estimated that one lakh rupee of investment in fixed assets produced Rs. 4.62 lakhs worth of goods and services and also generated employment of four persons and per unit employment was also estimated at 6.3 persons.

There has been a steady growth in investment and production during the post reform period. The investment and production increased from Rs. 35,376/- crore and Rs. 3,41,648 crore in 1993-94 to Rs. 84,329 crore and Rs. 6,90,316 crore in 2001-2002 respectively at current prices. The employment also increased from 139 lakh persons to 192.23 lakh persons during the same period of time.

After the implementation of the New Economic Policy, there was a tremendous growth in the number of units under D.I.C. in India. But the rate of growth in production and investment was not responding to the growth rate of SSI units.

It has been observed that the efficiency of the small enterprises has increased during the post reformed period since output per unit, output per worker and exports per unit has significantly gone up.

SSI sector played a major role in India’s present export performance. 45% of the Indian Exports was contributed by the SSI sector. Direct export from the SSI sector account for nearly 35% of the total exports. Besides direct exports, it was estimated that small scale industrial units contributed around 15% to exports indirectly.

The share of the small enterprises in the total export increased from 27.5% to 34.5 percent during 1990-1991 to 2000-01. It would be a matter of surprise for many to
know that non traditional products accounted for more than 95% of the SSI exports. The major items from non traditional products were engineering goods, chemicals, pharmaceuticals, cosmetics and processed food items, readymade garments electronic and computer software etc. While cashew kernel, cashew nutshell, spices, spice oil, etc were the major items of export of traditional products.

- The study observed that these industries did not experience an increase in employment per unit; in fact they have shown a sharp decline. It may be due to the fact that small enterprises became capital intensive particularly during the post reform period. Further, it is true if the growth of capital is associated with technological advancement that reduces labour. This could be one of the reasons for the poor performance of small industry as far as employment generation was concerned.

- It is evident from chapter four that Kerala had the largest number of state level public sector undertakings in India, 111 out of 1071 public sectors (10.4 per cent). The high number of SLPSUs was also evident from the fact that while India had one Public sector unit for every 9.5 lakh people, Kerala had one public sector unit for 3.3 lakh people. However, the SLPSUs in Kerala continued to incur losses and their paid-up capital eroded.

- The major reasons for industrial backwardness of Kerala and low level of investment in the State could be attributed to a host of factors like (1) high cost of production mainly on account of higher labour charges, (2) scarcity of labour and its high cost, (3) psychological fear of entrepreneurs due to labour unrest, (4) acute shortage of power and (5) lack of infrastructure facilities.

- A note worthy feature of Kerala stated in the fourth chapter is that despite its low per capita income Kerala has attained higher Physical Quality of Life Index (PQLI) that is more in tune with high-income economies. It is often described as the “Kerala Model of Development”. 

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The study also showed that nearly one-third of the total number of units is either non-existent or sick. According to official data, there were only 5,065 sick units in the State that formed only 2.1 per cent of the total number of units in 2000-01.

The entrepreneurs were found choosing the tiniest projects, perhaps due to labour problems in the State. The average employment per unit in the State was 4.6 persons which was lower than the all-India average of 5.5 persons. Similarly the value of production at Kerala was Rs. 4.6 lakh per unit against Rs. 19.2 lakh per unit at the all-India level.

The Third All-India Survey Analysis which is highlighted in the 5th Chapter exhibited a positive relationship between the variables in both pre and post reform periods. However, the degree of relationship was more during the pre-reform period compared to that of the post reform period.

The major problems of the registered small scale industries were lack of demand, shortage of working capital and labour. Management problems were found to be minimal in the sector.

Another major observation of the study was that the relationship between employment and investment was negative in Karnataka. However, in the post reform period, the relationship and the degree of co-efficient were found to be high compared to those of the pre-reform period.

The study also revealed a high correlation between variables (number of units, investment and employment) during both the pre and post reform periods in Kerala as in the case of Karnataka. Also the results were found to be significant in the case of Kerala unlike those of Karnataka.

The study also showed that there was a substantial growth rate in the sector in the post liberalization period. However, the small enterprises were found to be facing severe problems especially in the post reform period. The survey conducted in Kerala and Karnataka with respect to the various parameters of
small enterprises development given in the 6th Chapter revealed that small enterprises performance was comparatively better in Karnataka, as more than 44 and 35.55 per cent of the respondents evaluated their business as highly successful and moderately effective respectively. But in Kerala the figures were 33.33 % and 26.66% respectively.

➢ The study also revealed that nearly 37.77 per cent of the entrepreneurs did not apply for the product certification in Kerala because of lengthy process and huge cost. A similar situation was found prevailing in Karnataka as more than 48 per cent of the entrepreneurs did not possess product certification.

➢ Another major observation of the study was gender dimension. Although in both Kerala and Karnataka women workers were employed, most of them were found to be engaged in unskilled and semi-skilled jobs. In case of managerial and supervisory category the participation of women workers in the small enterprises in both the States was negligible. The male domination in employment opportunity was higher in all categories of the SSI units in the district of Kerala and Karnataka where the study was conducted.

➢ Of the total sample 86.6%, small scale units in Kerala and 71.11% small scale units in Karnataka were functioning in sole proprietorship type of SSI organizations.

➢ It was observed from the study that, out of the 90 sample respondents, 40% in Kerala and 42% in Karnataka belonged to the age group of 41-50 years. Of them 44% respondents in Kerala and 26.6% respondents in Karnataka were having graduate degree.

➢ There were a tremendous changes in the capital investment of all category of SSI units in Kerala & Karnataka.

➢ Another observation of the study was that the SSI sector performed well both in Kerala and Karnataka due to various reasons like the emergence of a new class of entrepreneurs with innovative ideas and challenges, franchise contracts and
other institutional and promotional measures undertaken by central and state governments.

➢ The study also showed that the 1991 reform did not eliminate completely the licensing regime of small enterprises. More than 55 percent of Kerala and 66.66 per cent of Karnataka entrepreneurs opined that their business/trade were subject to the licence from the appropriate authority. Even today unnecessary interventions of the inspectors raj in their business were found to be an obstacle to the growth of small enterprises.

➢ The case studies undertaken by the researcher brought out the importance of R & D, rationalization of production, product certification, inventory control and technology friendly management as crucial factors in facing and adapting the environment of international competition.

7.3 RECOMMENDATIONS

The following are the recommendations to be followed for effective functioning of the SSI units located in different parts of India.

7.3.1 `Credit Support to the Small Enterprises

The traditional small enterprise sector operates with fixed and working capital. These are arranged either through private sources or by institutional sources such as commercial banks, state finance corporations and other state owned bodies. This involves raising of loans through securities, guarantees, collaterals and margin money. There are many skilled and educated potential entrepreneurs unable to render equity support. In order to strengthen small enterprises a separate bank was established in 1990-91 known as Small Industrial Development Bank of India. In addition to the above, RBI made several guidelines to help the small enterprises. Inspite of the above, particularly the new comers and people who undertake tiny and micro enterprise activities find it very difficult to avail credit facilities. Hence, government must redefine the credit facilities so as to enable the new comers and micro and tiny enterprises to get suitable financial assistance at a reasonable rate of interest. This would definitely promote small enterprise activities in the globalized economy.
7.3.2 Utilization of Emerging New Technology

The products of small enterprises produced with the help of old technology are becoming redundant because of the change in tastes and preferences and fashions and also due to emergence of new technology. The entry of foreign brands in the goods segment has not only given consumers a wide choice of hi-tech and good quality products at competitive prices but also given them, improved after sales and services. It is an age of shopping in Super departmental stores. Only those goods produced by small enterprises can find a place in these stores which can meet both quantity and quality requirement at competitive prices. This means that the process of production has to be cost efficient and meet the quality needs of the customers. This improvement can only come through the use of latest technology. Hence the need for change in technology is more relevant for small enterprises.

7.3.3 Effective Role of the Government

After the introduction of economic reforms, one can already experience a change in the role of the government. In the developing countries, where the infrastructural facilities for development are inadequate and entrepreneurial activities are limited, the promotional role of the government assumes special significance. The state will have to assume direct responsibility to build up and strengthen the necessary development infrastructural such as power, transport, guidance on promoting technologies through Tool Room, Process cum Product Development Centres, Testing Centres etc., The government must ensure fiscal, monetary and other incentives to promote the small enterprise activities. While support will continue, the interventions of inspectors raj will come down. The government policy measures have to be clearly divided on the nature of the business and its course of development. The programmes should be focused more to address to the requirements of clusters. The sunrise industries and new ventures would require different attention. In a market oriented liberalized economy,
the role of the government is to create a situation in which the market forces are allowed a free play.

7.3.4 Strategy of Marketing

The small enterprises are hard to be protected in the environment of liberalization. In the wake of globalization, the quantitative restrictions are removed, by and large it has to face a stiff competition in marketing their products both at local and international level where one could find quality and popular brands. Hence, the producers should not make product differentiation. They must maintain the same quality whether the product is meant for domestic market or international market. Ultimately it is only the quality, brand and cost which are relevant and not the sub standard good for one market and superior goods for the other. Again in order to sell out their product, a proper advertisement is really needed and this will also promote their business.

7.3.5 Redefine SSI Policy

In order to assess the working of small enterprises, the government must redefine its policies. In order to ensure their efficiency, the government must conduct a periodical survey to assess the small enterprises. So far the central government conducted three All India Census Survey on the growth and development of the small scale industries in all the states. Since ten years have elapsed after the completion of the third all India census survey of the small enterprises, there is a need to conduct the fourth survey in 2011. Similarly, the state government should conduct a development study on small enterprises atleast once in four years. Besides these, the government should redefine its Industrial Policy Statement on small enterprises in every two years. This would clearly help the concerned to know about the present scenario of the small enterprises in the state economy.
7.3.6 Effectiveness of Nodal Agencies

In order to promote the small enterprises at the international level, the government must come out with appropriate policy formulation and establishment of various nodal agencies to help this sector. In case the government goes for the establishment of such nodal agencies, they will particularly look after the growth of small enterprises by paving the way for the emergence and development of the small enterprises. There is a need to establish various nodal agencies such as:

- Technology Upgradation Cell
- Research and Development Wing
- Export Promotion Cell
- Marketing Wing
- Human Resources Development Wing
- Outsourcing Wing
- Financial Services
- International Centre for Small Enterprises etc.,

7.3.7 Redefine the Labour Law

The existing plethora of rules, regulations and laws are constraints to the small scale sector and making it inefficient. The entrepreneurs are liable to supply information to the government as and when it is asked for. In the process a lot of the precious time of the small entrepreneurs is wasted. There is a need to club many of these returns into one and to eliminate those returns and remove those regulations, which have become redundant. The Government at the center and states are fully aware of this problem. A new environment in which the rigours are reduced and the laws regulations etc, do not hamper the production process is the need of the hour. Already changes have taken
place in a few states like Andhra Pradesh, Maharashtra, Haryana and Uttar Pradesh. It is expected that other states will also follow suit to reduce the rigours of Inspectors Raj. Single unified legislation for the small enterprises proposed under small enterprise development bill is expected to herald a new era of rigours free small enterprise sector.

7.3.8 Efficacy of the Workers

A significant change that need to be witnessed in the field is quality of job creation in the small enterprises. The focus has to shift from ‘number of labour force employed’ to ‘quality labour force employed’. Both the existing and the new labour force joining the small enterprises should be able contribute to the improvement in productivity. What should be the efficiency of the labour vis-à-vis the capital? The quality of the labour is measured through productivity and this in turn is the function of twin forces of (a) Skill Development and (b) Technology Upgradation. The Tenth Plan clearly emphasized that there should not only be an addition of over 10 million jobs through the small enterprises in the country but also an achievement of an annual rate of growth of 12 per cent as against annual growth of 8 per cent in GDP. Hence, clearly the emphasis is on improving the quality of labour. One can also see that the training programmes which used to be mostly of general nature in the earlier times. Now it is changed to product specific training in the field of cosmetics, herbal medicines, processing of agro-based items, bio-tech items etc. The training programmes are moving to the realm of specialization with specific product related training.

7.3.9 Efficacy of the Enterpreneurs

The basic requirement of an entrepreneur is the readiness to bear risk and uncertainty. An entrepreneur is one who has the initiative, skill for innovation and who looks for high achievements. His role in a country like India is to create wealth, open up employment opportunities and provide forward and backward linkages. But in the
changing environment, he is expected to perform some additional functions. Since he will no longer be operating under protected market, he will have to be competitive both globally and domestically. For this, he will have to be conversant with the modern managerial techniques. He has to emerge as a dynamic entrepreneur capable to compete globally. He will have to understand as to how a change in economic policy of any country is going to affect his enterprise. He will have to address the requirement of a new product be it software, bio-technology or traditional items like shirt, shoes or food. In the changing environment in the next ten years, there is a possibility of emergence of a good number of highly qualified first generation entrepreneurs. Small enterprises are likely to comeup in a big way in the areas like pharmaceuticals, information technology and bio-technology.

7.4 CONCLUSION

The Indian small enterprises must embrace change if they have to survive and find a place for themselves in the global competitive environment. Pertinent changes need to be worked out not only in the attitude of the stakeholders but also in the mindset of the institutions which are engaged in the task of development of small enterprises. Efforts also should be made to take fullest advantage of the opportunities available under globalization. The constraints will have to be overcome through adoption of aggressive export and marketing strategies like those of China. Competitiveness and quality improvement have to be accepted as watchwords. Indian small enterprises have proved their worth in the past and with the adoption of necessary changes they can excel in the future. In the ultimate analysis, the survival of the small enterprises and their ability to find a place for themselves in the global market depend on their ability to bring out major changes in the quality of output, exports and employment.