CHAPTER 1

INTRODUCTION

1.1 OVERVIEW OF SMALL SCALE INDUSTRIES

In India the small-scale industrial sector has been a key contributor to the country’s Gross Domestic Product. This conventional sector in India is measured to have a huge growth panorama with its wide range of products. With 40% contribution in total industrial output and 35% contribution towards exports, the small-scale industrial sector in India is performing as the engine of expansion.

SMALL-SCALE INDUSTRY: A CONCEPT

In the course of forty years, the definition of small-scale industry has been modified many times. First, it deleted the employment factor from the point of view of promoting the official programme under successive plan periods. Secondly, it jumbled the fixed capital by redefining it to include machinery only in a phased manner. This change has necessitated the need to off-set the higher cost of machinery arising out of the rising prices and to a greater extent the opportunities to small-scale enterprises.

Presently the Small Scale Industries are segregated into two categories- those using power with manpower less than 50 and those not using power with the manpower strength being more than 50 but less than 100. On the other hand, the capital resources invested on plant and machinery and
buildings have been the primary decisive factor to differentiate the small-scale industries from the large and medium scale industries. An industrial unit can be classified as a small-scale unit if it fulfills the capital investment limit fixed by the Indian Government for the small-scale sector.

In harmony with the provision of Micro Small and Medium Enterprises Development Act, 2006 (Ministry of Micro, Small and Medium Scale Industries 2006) Micro, Small and Medium Enterprises are categorized into two types:

(i) Manufacturing Industries: The industries engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule of the Industries Development and Regulation Act, 1951. (Development Commissioner MSME 2012) defined in terms of capital employed in plant and machinery.

(ii) Service Industries: The industries engaged in rendering services and are defined in terms of capital employed in equipment.

The boundary for capital employed in plant and machinery, equipment for manufacturing or service industries, is as under:

According to MSMED Act, 2006, following industries whether Proprietorship, Hindu Undivided Family, Association of persons, Cooperative Society, Partnership, Undertaking or any other legal entity by whatsoever name called, in the case of industries engaged in the manufacturing or production of goods pertaining to any industry as per First Schedule to the Industries Development and Regulation Act 1951.
Small scale industries in which the investment in fixed assets in plant and machinery is more than `25 lakhs but does not exceed `5crores. In the case of enterprises engaged in providing or rendering Services in which the investment in fixed assets in plant and machinery is more than `10 lakhs but does not exceed `2crores.

The conventional small-scale industries evidently differ from their modern counterparts in many aspects. The conventional units are highly labour consuming with their age-old machineries and conventional techniques of production resulting in poor productivity rate where as the contemporary small-scale units are much more productive with reduced manpower and more sophisticated equipments.

Khadi and handloom, sericulture, handicrafts, coir and village industries are some of the traditional small-scale industries in India. The modern small scale industries offer a broad range of products ranging from simple items like hosieries, garments, leather goods, fishing hooks, etc., to more classy items like television sets, electronics control system, different engineering products particularly as ancillaries to large industrial undertakings.

These days, Indian small-scale industries have become as modern Small-Scale Industries. Rejuvenation has established the list of products offered by the industry. The items produced in modern small-scale service and business enterprises in India now consist of hardware, electrical items, transport equipment, electronic components, rubber items, plastic items, chemical, glass and ceramics, mechanical engineering items, and equipments, auto parts, bicycle spares, instruments, sports items and stationeries etc.

Since independence, the Central Government has cherished this sector in order to encourage growth, expansion and more investment in the
small-scale sector, and adopted a strategy of reservation for permitting some of the products to be exclusively manufactured by the small-scale sector.

The small scale sector produces an extensive range of products, ranging from simple consumer products to classy end-products. As subsidiaries, they produce a huge variety of products required by the large scale industries. The small scale sector has became a major supplier of mass consumption goods like leather articles, plastics and rubber goods, paper products, fabrics and garments, cosmetic items, utensils, metal components, detergents and soaps, sports goods processed food and vegetables products, steel and wooden furniture etc. More classy items manufactured by the small scale sector now include television sets, electronic desk calculators, auto-parts, drugs and pharmaceuticals, microwave parts, air conditioning products, electrical products etc.

To give special attention, the Indian Government established the Small Industries Development Bank of India (SIDBI) in April 1990. The major objective of the bank is to ensure steady flow of funds to SSIs to relieve them from financial difficulties.

Regrettably all earlier attempts to expand, develop, and modernize the SSIs have not been of great use. On the other hand, the efforts like starting of the Technology Development Board, Technology Development and Modernization Funds, ISO 9000 Certifications support, stressing on improving the managerial talents are turning out to be much more productive in modernizing the small scale industries in the country.
IMPORTANCE, NEED AND PLACE OF SSIs

The importance and need of SSIs is all the more great in a developing economy like India, wherein nearly three fourth of the population is depending upon agriculture which is a seasonal one and results in large-scale unemployment. The best way of dealing with this is to provide the cultivators with work through the development of SSIs, so that seasonal unemployment and underemployment could be eliminated or at least minimized. Along with this, small size of the farms keeps the villagers who own lands idle for about half the year. SSIs properly organized and developed will provide profitable employment for the agriculturists during periods of their enforced idleness and also make a vital contribution in maintaining their standard of living.

The promotion of small-scale industries has been widely recommended as one of the most appropriate means of developing industry in over populated backward countries. Japan is usually held up as the great example of what can be done in this way.

Backward region endowed with a typical pattern of factor endowment, adoption of labour-intensive techniques involving low capital cost could increase employment opportunities, reduce regional imbalances, and check migration to urban areas. SSIs no doubt play all the roles ascribed to it in a developing country, but there is something more to it. In economies starved of capital and technical knowhow, the natural turn to small industries should not be looked upon as an economic compulsion of backwardness, but as an economic necessity.

Hence, there is no denying of the fact that SSIs play a vital role in activating the resources of the backward areas. There is urgent need for
fostering the growth of small industries which supplement the income of the farmers in an over-populated agricultural economy with unemployment.

1.2 STATEMENT OF THE PROBLEM

The small-scale industries, regardless of their significance in the country’s economy, are not contributing to their maximum towards the progress of the country (RajendraPrasad 2004). It is for this reason that these industries are set with a number of troubles in regard to their functions. The issues that are emerged from Review of Literature are financial challenges (Reetu 2012), productivity, performance, competitiveness, marketing problems and support (Arjunkumar2012), quality products, entrepreneurial skills, managerial competency, technological advancement, infrastructural facilities (Ram et al 2012), rural development, awareness and utilization of available government support, availability and utilization of resources, etc.

The Small-Scale Industries have serious problems with both long-term and short-term credits (Daniel2012). This is clear from the fact that the supply of credit has not been corresponding with their needs associated with the capital required. The timing of the credit is another aspect. The credit situation is particularly hard for the very small or micro units. The methods of production which the small and micro industries use are older and incompetent (Umashankar2008). The outcome is lower productivity, low quality of products and increased costs. The producers, due to lack of information system, know very little about modern technologies and training openings available for the Small-Scale Industries. Another serious challenge which these industries face is that of competition from large-scale industries (Ismail 2006).

The problem of raw materials continues to plague the small scale industries (Malga1997). Raw materials are available neither in sufficient
quantity, nor of required quality and also not at normal price level. Being small customers, the producers are not able to go for bulk buying like the large industries. This leads to taking whatever quality is available in quality and at high prices. The small-scale industries face the acute problem of marketing their products. The challenges arise from such factors are production in small scale, lack of market knowledge, competition from technically more strong units, shortage of marketing amenities, etc.

Apart from the above problems, small-scale units have been constrained by a number of other challenges also. These include poor project planning capacity, lack of managerial talent (Siva2012), and older and traditional designs. Due to all these challenges, the development of small-scale industries could not reach a prestigious position. To face the above mentioned challenges, the Government is extending its support under different schemes and through many agencies but the awareness on these supports available to overcome the troubles is another major concern. Therefore, the study focuses on these areas of concern to find out ways for the growth of SSI sector.

1.3 IMPORTANCE OF THE STUDY

Small Scale Industries’ that are performing better make a great positive effect on economic growth of the State and the Nation. The acceptance of this conjecture is evidenced by the policy recommendations of the State and the country. This is mainly due to the initiatives taken by the State and the Central Governments to encourage the Small Scale Industrial sector. These aspects indicate that the Small Scale Entrepreneurs have been facing many problems though they acquire significant prosperity. Study on these aspects in Tamil Nadu is very little, and hence this fact makes this study important.
The outcome of this study will guide the new small business promoters, practicing Small-Scale Entrepreneurs, and the Government for better performance of the Small Scale Industries so as to achieve economic development in the State and the country. The study will address various problems/challenges faced by the Small Scale Entrepreneurs and prospective areas for the Small Scale Entrepreneurs to capitalize on that to improve their performance. The study will also throw light on various forms of support and subsidy extended to the Small Scale Entrepreneurs and awareness level on these aspects among the Small Scale Entrepreneurs.

The study will elucidate greater opportunities for the new entrepreneurs to gain meaningful information about pros and cons of the Small Scale Industries. To the Government, the study will indicate the areas of concern to be addressed in Small Scale Industries which will facilitate the government to take policy decisions to improve the SSIs’ performance in future.

1.4 SCOPE OF THE STUDY

The Small Scale Industrial sectors have recorded noteworthy growth and remarkable performance. This study focuses on identifying and evaluating the factors accountable for survival of the SSI, Providing required resources for their business, helping the Government in formulating policies for Small-Scale Industries and reviving the sick units and facilitating them to perform better.

The study area for this thesis is Tamil Nadu State. It is considered as one of the industrially forward states in the country. The growth of SSIs in Tamil Nadu is high compared to other states. Nature has blessed Tamil Nadu with modest resources of mineral wealth and forest wealth. These have been ingeniously exploited for a long time to bring about economic prosperity. For
centuries the area has been well known for its trade with its neighbouring areas and in export and import, well-supported by its Small Scale Industries.

The recent economic history of Tamil Nadu also reveals that the State has in many ways been the pioneer in economic planning and development. It has set up a planning system even before any state in India had thought of industrialization, communication, electrification and banking in rural areas. There are 32 districts and out of these 32 districts Dharmapuri, Krishnagiri, Salem, Erode, Namakkal, Chennai, Vellore, Coimbatore, Tirupur, Tiruchirapalli districts were taken as sample districts for this study. These are the leading districts in one way or other. The sample respondents are chosen from these districts only. As such 50 Small Scale Industry promoters from each district totally 500 were contacted with the questionnaire. The study outcome will support the new, existing SSI units and the Government to plan for renewed supporting programmes for the Small Scale Industries to facilitate the economic growth of the State.

Figure 1.1 India Map
1.5 OBJECTIVES OF THE STUDY

i. To study the theoretical framework of Small Scale Enterprises in general and in particular with reference to Tamil Nadu.

ii. To analyze the factors that influences the individuals to become Small Scale Entrepreneurs in Tamil Nadu.

iii. To identify the prosperity and the common problems faced by the Small Scale Entrepreneurs in Tamil Nadu.

iv. To suggest better ways and means to alleviate the problems faced by Small Scale Entrepreneurs in Tamil Nadu.
## 1.6 HYPOTHESES TESTED

The following are the hypotheses of the study.

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<th>Sl. No</th>
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| 1      | H₀: There is no close relationship between age of the entrepreneurs and the level of profit earned in Small Scale Industries.  
        | H₁: There is a significant relationship between age of the entrepreneurs and the level of profit earned in Small Scale Industries. |
| 2      | H₀: There is no close relationship between gender of the entrepreneurs and the level of profit earned in Small Scale Industries.  
        | H₁: There is a significant relationship between gender of the entrepreneurs and the level of profit earned in Small Scale Industries. |
| 3      | H₀: There is no close relationship between marital status of the entrepreneurs and the level of profit earned in Small Scale Industries.  
        | H₁: There is a significant relationship between marital status of the entrepreneurs and the level of profit earned in Small Scale Industries. |
| 4      | H₀: There is no close relationship between Geographical area of the entrepreneurs and the level of profit earned in Small Scale Industries.  
        | H₁: There is a significant relationship between Geographical area of the entrepreneurs and the level of profit earned in Small Scale Industries. |
| 5      | H₀: There is no close relationship between educational qualification of the entrepreneurs and the level of profit earned in Small Scale Industries.  
        | H₁: There is a significant relationship between educational qualification of the entrepreneurs and the level of profit earned in Small Scale Industries. |
|   | 6 | **H₀**: There is no close relationship between age of the business enterprises and the level of profit earned in Small Scale Industries.  
**H₁**: There is a significant relationship between age of the business enterprises and the level of profit earned in Small Scale Industries |
|---|---|---|
|   | 7 | **H₀**: There is no close relationship between type of industry and the level of profit earned in Small Scale Industries.  
**H₁**: There is a significant relationship between type of industry and the level of profit earned in Small Scale Industries |
|   | 8 | **H₀**: There is no close relationship between type of ownership and the level of profit earned in Small Scale Industries.  
**H₁**: There is a significant relationship between type of ownership and the level of profit earned in Small Scale Industries |
|   | 9 | **H₀**: There is no close relationship between amount of investment and their level of profit earned in Small Scale Industries.  
**H₁**: There is a significant relationship between amount of investment and the level of profit earned in Small Scale Industries |
|   | 10 | **H₀**: There is no close relationship between number of employees and the level of profit earned in Small Scale Industries.  
**H₁**: There is a significant relationship between number of employees and the level of profit earned in Small Scale Industries |
|   | 11 | **H₀**: There is no close relationship between influence on marketing performance and the level of profit earned in Small Scale Industries.  
**H₁**: There is a significant relationship between influence on marketing performance and the level of profit earned in Small Scale Industries |
1.7 LIMITATIONS OF THE STUDY

In true sense, research in any field of knowledge makes the ground for more researches. Obviously, all studies and researchers have their own limitations. While working on this topic this too has limitations, some are situational and a few are self-imposed. The main limitations of the study are as follows:

i. The sample of the study is only limited to 10 selected districts of Tamil Nadu State and thus the result may not represent the entire State or Country.

ii. Sample size is 500, from 10 selected districts in Tamil Nadu.

iii. The research is mainly based on primary data and so it would be depending on respondent’s awareness and readiness for the study.

1.8 CHAPTER SCHEME

Chapter I - Introduction

The first chapter introduces the subject matter and explains the objectives, importance, scope, and limitations of the study.

Chapter II - Review of Literature

The second chapter discusses some of the important literature available regarding previous studies on SSI sector related to the study.
Chapter III - Small Scale Industries - a Framework

This chapter deals with the evolution of Small Scale Industries in the country and state. It covers the challenges faced by the SSI sector and explains the progress of the SSI sector at the national, state-level and contribution from the central and state for the development of the SSI sector.

Chapter IV – Research Methodology

This chapter explains the method of research adopted for the study, method of data collection, pilot study, sampling technique used, sample size, and tools used for interpretation of data.

Chapter V – Presentations and Analysis of Data

An Empirical Analysis on prosperity and common problems faced by Small Scale Entrepreneurs, and awareness on available support to overcome those problems are described in this chapter.

Chapter VI – Summary of Findings, Conclusions, Recommendations and Suggestions for Future Research

This chapter summarises the contents of the previous chapters and suggests possible measures to be taken to face the challenges to ensure the growth of the sector.