

## **CHAPTER 1**

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## **Chapter 1**

### **Introduction**

#### **1.1.0 Introduction**

Industry is said to be the engine of growth of an economy and Industrialization is considered as one of the most striking features of modern civilized world. It is a process in which economic gains of industrial progress, mainly in the nature of increasing returns are continuously created and wholly or partly realized. The pace of economic development of a country is preceded by the rate of industrialization in that country. Hence industrialization is considered as inevitable in a developing economy, as the available resources, availability of man power, the techniques of production, attitude of the government, its policies and programmes and also the social system favouring or disfavours industrialization, all these together determines the progress of industrialization.

Industrialization usually passes through three different stages. In the first stage, industry concern itself with the processing of primary products like milling grains, tanning leather etc. In the second stage it starts producing somewhat finished products like breads, biscuits, leather bags etc. and in the third stage industry uses machines and equipments not only for direct satisfaction of wants but also to facilitate future process of production.

In a developing country like India, the development of Small Scale Industries and their close relationships with large industrial units are

considered essential in any scheme of industrialization. Its liberalized and open economic policies have shown results. New avenues have opened up for business activity. In this progressive economic scenario, one sector has emerged as the most happening, which is the small scale sector.

Small Scale industries occupy a significant position in the planned industrialization of any economy. Most of the small scale industries have a low capital intensity and high potential for employment generation. Further, small scale units bring forth indigenous entrepreneurship and savings lying dormant, particularly in semi urban and rural areas and bring in foreign exchange into the country. Small business has played a very crucial role in transforming the Indian economy from a backward agrarian economy to its present stature. The Small Scale Sector is the natural habitat of entrepreneurs. Most entrepreneurs start small units and then nurture their units into large industries. The Small Scale Sector provides an opportunity for them to groom their skills and talents, to experiment, to innovate and transform their ideas into goods and services needed by the society. The development of these industries creates jobs in developing countries where the problem of unemployment and underemployment is high.

### **1.2.0 Historical Preface of Small Scale Industries in India**

India has traditionally always had a very vibrant and competitive Small Scale Industry. Even after the dawn of industrialization, British producers of textiles found handmade Indian textiles such a threat that they lobbied hard to have its import banned, succeeding in the late eighteenth century (Gupta & Sharma, 1996).

After independence, Indian planners and policy-makers felt that protection was essential to the development of a strong, indigenous economy. The first four decades after independence saw the development of a highly protected economy. Owing to the feeling that the small scale sector was an important tool in employment generation, value creation and poverty alleviation small scale units were given special protection. Along with the Large Scale sector the thrust was on the Small Scale sector because of its decentralized, its small size, use of mainly indigenous technology, employment intensity and its suitability for rural areas with limited techno-economic structure. It may be noted that the specific role of small scale industry was also recognised in the Industrial Policy resolution of 1948 which categorically mentioned that “the cottage and small scale industries are better suited for utilization of local self sufficiency in certain types of essential goods.

Post 1990 has seen a gradual opening up of the sector due to the policy of liberalization with some of the products being de-reserved and increasing competition from within India and abroad as well. However a large number of the products remain reserved, making this a sector which is still highly regulated.

In the early 1991, Indian economy faced several economic crises, like fiscal imbalances, mounting inflationary pressure and severe balance of payment crisis. As a rescue measure series of new policies were announced in July 1991 by the Government of India and in August 1991 for the first time the government announced a separate policy for the small scale sector, with objective of promoting this sector. But these promotional policy measures, in many cases resulted in protection of weak units rather than the independent growth of units under competitive business environment (Nyati, 1988). Such situation was continued up to the mid of 1991. Under the regime of

economic liberalization, the focus was shifted from “protection” to “competitive promotion”. The Government established the Ministry of Small Scale Industries and Agro and Rural Industries (SSI & ARI) in October, 1999 as the nodal Ministry for formulation of policies and Central sector programmes/schemes, their implementation and related co-ordination, to supplement the efforts of the States for promotion and development of these industries in India. The role of the Ministry of Small Scale Industries is thus to mainly assist the States in their efforts to promote growth and development of the Small Scale Industries, enhance their competitiveness in an increasingly market-led economy and generating additional employment opportunities. Small scale industrial sector has performed exceedingly well and enabled our country to achieve a wide measure of industrial growth and diversification. By its less capital intensive and high labour absorption nature, Small scale sector has made significant contributions to employment generation and also to rural industrialization.

### **1.3.0 Significance of Small Scale Industry in India:**

India is a nation on the move. Small Scale industries have now been recognized by our policy makers as a growth driver of Indian economy. For developing economies, especially India, where labour is abundant, small scale sector is considered as a major source of employment generation. Small enterprises epitomizes India’s socio economic development model and meets India’s long term expectations in terms of employment, export and GDP growth. It contributes to about 8% of India’s Gross domestic Product (GDP). The Small and medium enterprises sector in India accounts for around 95% of the industrial units, almost 45% of the manufactured output,

40% of exports (Economic Survey Report, 2009–2010). The Employment in the registered MSME sector was estimated to be 92 lakhs indicating an average employment of 5.93 persons per unit (Ministry of MSME, 2010). It also effects a qualitative change in the economy of the state. MSMEs in India are slowly changing from low technology orientation to users of modern technology; however, the sector continues to be characterized by a large diversity in technology base.

#### **1.4.0 Rationale of the Study**

In these days of regional planning any research in the area of Industry and Commerce is to have a region as a unit of reference. The area wise study can be further justified on the count that Infrastructural facilities available in each region would not be uniform and hence the problem faced by small scale units in different regions would be different. To know more about the development of Small Scale industries their problems and their prospects, a proper study and time to time evaluation is needed. Many studies have been carried out related to Small Scale Industries but no such relative study has been carried out related to Problems and Prospects of Small Scale Industry in Indore.

This study will help the government in making policies for the overall development of Small Scale Industries. Planners and economists will be benefited to make their policies. The study will also help the entrepreneurs and upcoming people willing to bring up this type of industry in Indore Region. The further researchers in this field will also be beneficiated through this study.

### **1.5.0 Objective of the study**

- To study the favourable conditions for the development of Small Scale Industries in Indore.
- To study the government policy for the development of small scale Industries in Indore.
- A study of the trend of the Industrial development of Indore in the last five years.
- To study the problem facing by Small Scale Industries.
- To study the prospects of Small Scale Industries.

### **1.6.0 Hypothesis**

To study the above objectives the researcher has framed the following hypothesis. On these hypotheses the researcher wants to know the problems and prospects of Indore.

1. In spite of favourable conditions in Indore district the development of Small Scale Industry is not satisfactory.
2. In spite of favourable government policy and financial support entrepreneurs are not attracted to Small Scale Industries.

3. Small Scale Industries are not able to develop in Indore district because of Power crisis, Water crisis and Marketing problems.
4. Availability of Capital, Entrepreneurial trend and work force growth is not significant in Indore region.
5. Indore being an Education Hub has ample availability of Technical and Management Graduates because of this the prospects of Small Scale Industries are bright.

#### **1.7.0 Research Methodology**

Research Methodology means the way to solve the research problem systematically. It gives the detail behind the research methods used by the researcher, how data has been collected, what technique is used to analyse them etc. This study depends on Primary as well as Secondary data.

#### **1.7.1 Primary Data**

To know the problems facing by Small Scale Industries Primary data was collected through interviews of entrepreneurs and through questionnaires because the problem of the small scale industries can be best known from the industrialists themselves. For collection of primary data the questionnaire was framed in the structured form, it was mostly dichotomous [yes or no] and multiple choice and open ended. There was simple and

straight forward direction for the respondents so that they do not feel any difficulty in answering the questions.

Pilot survey-a pilot study was conducted for testing the questionnaire among selected enterprises and based on the responses obtained; necessary changes were made in the final questionnaire.

Information was also collected from related associations, Institutes and Government agencies. The present study covers different types of industries and different industrial areas in the Indore District so that analysis could be done in a rational manner.

### **1.7.2 Secondary Data**

The secondary information was collected from various sources like related articles, book reports, associations, Internet sources, Thesis of related fields, various news papers and Business Magazines.etc. Data was also collected from various departments such as Association of Industries, District Industrial Centre (DIC), District Statistical Office, Madhya Pradesh Laghu Udyog Nigam.

### **1.7.3 Scope of the Study**

The study has been limited to past 5 years from 2005 till 2010 as the cut off year as far as data collection was concerned. For the study Industries were segregated into 6 categories as major small scale industries existing in Indore cover these sectors:-

Agricultural based  
Building and Construction Material Based  
Engineering based  
Forest based  
Textile based  
Others

An attempt has been made to cover the following areas of Indore

Sanwer Road  
Laxmibai Nagar  
Pologround  
Rau

For this purpose a representative sample of 200 units were covered.

#### **1.7.4 Sampling scheme**

There are so many sampling techniques available but the most suitable sampling technique in the present study was conducted by random sample. The survey was conducted with a representative sample of 200 small scale industries of Indore.

#### **1.8.0 Profile of the Surveyed units**

There are various types of small scale industries in Indore. These industries have been categorised in six groups according to the nature of industry for study purpose. Data was collected randomly area wise.

**Table 1.1**

**Distribution of the Sampled units according to Categories**

<b>S. No</b>	<b>Category of Industry</b>	<b>No. of Surveyed Units</b>
1.	Agriculture Based	40
2.	Building and Construction	30
3.	Engineering Based	50
4.	Forest based	35
5.	Textile Industry	25
6	Others	20
	<b>TOTAL</b>	<b>200</b>

**Agriculture Based Industry:** Agro-based industry means any activity involved in cultivation, under controlled conditions of agricultural and horticultural crops, including floriculture and cultivation of vegetables and post-harvest operation on all fruits and vegetables. The development of agro-industries has assumed crucial importance in the economic planning and progress of Indore. Our surveyed units consists of industrial units engaged in various type of simple processing activities such as bakery, food products, namkeens, crushing of oil seeds and manufacture of Pulses. 40 agro based units were surveyed which consists of 20 percent of the surveyed small scale units.

**Building and Construction Material Based:** The building materials sector is extremely diverse and constitutes a sizeable chunk of the industrial base. It includes a highly diverse range of suppliers, from cement manufacturers to

specialty glass and steel manufacturers, as well as providing a large market to furniture manufacturers, paint and wiring manufacturers, and a host of other related industries. Of the surveyed units 30 units manufacturing tiles, pipes, paints, steel and sanitary fittings were surveyed.

**Engineering based industries:** The Engineering sector is the largest in the overall industrial sectors. It is a diverse industry with a number of segments, and can be broadly categorised into two segments, namely, heavy engineering and light engineering. Most of the products in the light engineering industry serve as inputs for the capital goods industry. These units provide great support to large scale industries and manufacture products like nuts, screws, bolts, studs, rivets, nails, washers, machinery parts etc. The study shows that the maximum of the surveyed unit's i.e 50 units are engineering based industries.

**Forest based Industries:** Forest-based industries include the woodworking industries, pulp and paper industries and the printing industries. They use as their main raw materials wood, paper or recovered paper and wood. These industries provide a sound base for other industries. 35 units were forest based.

**Textile based industries:** Textiles can be made from many materials. These materials come from various sources like animal (wool, silk), plant (cotton, flax, jute) and synthetic (nylon, polyester, acrylic). Textiles have an assortment of uses. This industry surveyed mainly include units manufacturing readymade garments, tents, collages, furnishings, bags, dyeing and printing of garments etc. 25 such industries were surveyed.

**Others Industries:** In this category 20 other industries were surveyed which play a very important role in the industrial development of Indore like leather industries, chemical industries, pharmaceutical industries and plastic industries.

### **1.9.0 Limitations of the study:-**

The study has been confined to small industrial units of Indore District. The limitation of the study is that the people in Indore are very reluctant to share information relating to their business for the fear that they may be cornered by the tax authorities and wished that the information kept confidential. The sample consisted of only 200 units. The sample is not very large but it is considered adequate and representative of the entire units. There are various types of small scale industries in Indore but the researcher has covered only 6 categories of small scale industries manufacturing their products in Indore District.

### **1.10.0 LITERATURE REVIEW**

The issue of small scale business has been receiving increasing attention over the recent years. The present Literature review consists of various theories and concepts that affect the small scale industry in a negative or positive way. There have been studies on various branches of small businesses:

**Singh M.P (1988)** in his paper Growth and Development of SSI expressed that the small scale sector, which produces wide range of more than 7500 products, has grown phenomenally during the past four and a half decades

**Gowda (1988)** in his research work 'Small Scale industrial units: An enquiry into their working and problems' states that the small scale units in general are not functioning on scientific lines. As they have both social and economic significance to the country, they need to put in order. In this responsibility of the entrepreneurs, the Government and the general public is co- equal.

**Maria (1988)** in her research work 'Banks financing of small scale industries in Tamil Nadu with reference to Sivaganga District' states that in order to ensure proper recovery of bank loan, the legal recovery process needs a change , which would certainly facilitate banks in their recovery of loan. The malady of unemployment of the country could well be cured if attention is paid on channelising adequate flow of funds from the banking sector to the Small Scale industries sector.

**'Selvam M (1995)** in his paper, Growth of Small Scale Industries, Laghu Udyog said that small scale industries has several strengths. There is flexibility, inexpensive labour, closeness to market and owner market reduced overhead. SSI can easily absorb new technology, new design and new process, but they must be prepared to continually upgrade their production process and design.

**Raje Vasundhara (2000)** in her paper 'Marketing of Small Scale industries, Laghu Udyog' expressed one of the crucial areas for success of any manufacturing enterprise is its ability to market the products successfully and paying proper attention to marketing.

**Lakshmi Sha (2003)** conducted a study to know the motivational factors of entrepreneurship. The author found that ambition may not alone make an entrepreneur. At times, the encouragement of family members, friends, EDPs etc., also facilitates the exercise of entrepreneurship.

**Narayana (2004)** in his paper focused on analysis of quality and cost of infrastructure facilities and business environment, and their impact on competitiveness of India's Small-Scale Industries. Infrastructure facilities include transport, market information, credit, power, water, telecom, technology up gradation and quality certification. He studied a sample of 373 SSIs in Bangalore and non-Bangalore regions of Karnataka State. The results showed that low quality and high cost transport facilities, power, water supply; lack of market information; inadequate credit facility; and low technology have lesser effects on competitiveness of SSIs in Bangalore region than in other regions. In addition, extent of delay varies between regions in getting credit Sanctioned from banks, getting tax and duty-drawbacks, getting temporary and permanent registration, clearances for exports, permission for expansion and diversification, power and water connections, and clearance from pollution control.

**Suresh (2007)** in his paper "Competitiveness of Small-Scale Industries of India" highlighted the importance of small industries and their role in the

economy and the impact of economic reforms on growth pattern and productivity performance of small-scale industries. He mentioned that Small industries are faced with numerous problems major and minor, which make them either uncompetitive or sick.

**Dixit and Pandey (2009)** estimated the marginal productivity of labor and capital in the Small scale industrial sector. Results reveal that marginal productivity of labour in the Small scale industries is positive and highly significant during the study period.

**Aarti Singh (2010)** in her paper on “Role of small scale industries in District level development: A study of Varanasi” mentioned that these industries have a special role to play in a developing country like India. Furthermore she added that due to gradual awareness about the socioeconomic benefits of the industries, the people throughout the country with varying socioeconomic backgrounds are attracted towards these industries.

**Rao (2010)** studied a sample of 135 small scale Industrial units from 3375 registered industrial units with the district Industrial Centre. The study considered the location of the units, capacity utilisation, reasons and measures for capacity underutilisation of units. The study identified that there was no relationship between the location of units and the extent of capacity utilisation.

**Baghel et al (2011)** in their paper on “Innovation in Indian Small Scale Industries: Case Study of Cosmetics Small Scale Industry in Mumbai” presented five case studies of innovation practices by MSME entrepreneurs in cosmetics industry in India. In an industry highly conscious of brand, the enterprises selected for the study successfully adopted the products, interfaced with the government labs for product testing, marketed the products through Internet, and have operated successfully with informed users of these products such as beauty parlours and the like. The cases highlighted the problems and possibilities of innovative behaviour in MSMEs.

**Kadam (2011)** in her research paper “A study of Financial Management in Small Scale Industries in India” stated that developing cash forecast is essential for new business because early sales do not generate enough cash to keep the company afloat. Better financial management can lead the company ahead in competition as well as it will help the entrepreneur to avoid the situation of bankruptcy & industrial sickness.

**Kumar (2012)** in his paper “Entrepreneurial Spirit and Motivation in Small Scale industries: A Study of Mahabubnagar District, AP, India” concluded that unless a massive training programme is organized to support ambitious rural development programmes, the goal of full employment may not be achieved within the stipulated period of time through small scale sector. Entrepreneurship is the only way to create jobs.