

# Globalization and Its Impact on Small Scale Industries –An Analysis

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SSI is widely recognized as a powerful instrument for socio-economic growth and balanced sectorial development. One of the distinctive characteristics of the SSI sector is its capacity to create broader employment opportunities, assist in entrepreneurship and skills development and ensure better use of scarce financial resources and appropriate technology.

The Indian National Congress took over the reins of power after India's Independence in 1947. Most of the Congress leaders came to occupy responsible positions in the Central and State Governments. It was, therefore, expected that the sanctity bestowed on *Khadi* and village industries by Mahatma Gandhi would be preserved and adopted unhesitatingly as a national and public policy in free India. It was also expected that the ideals of building self-reliant villages was a commitment that had to be discharged faithfully by the party and the followers of Gandhiji. Because of the then prevailing political environment, especially the place and the role Gandhiji played in the struggle for independence, there was no serious debate on or critical scrutiny of the issues Gandhiji was associated with and had expressed his clear views on. There were, however, many who were extremely critical of the Gandhian philosophy for socio-economic development of the country.

Since Gandhiji stood for a decentralized administrative system, in which village was to be the basic unit of management, planning and administration, it was proposed by the Gandhians that it should be made obligatory for the state to pursue Gandhiji as an ideal with regard to village and cottage industries.

The post-independence years represent a period of confusion, when the slogans and emotional ideals of the period of India's struggle for independence came under serious inspection. It was natural. If none had questioned Gandhiji and his philosophy earlier, many now doubted the relevance of Gandhian concepts in independent India. As long as Indian industry was dominated by the British, it made political sense to damn machine; but in the changed situation, machines needed as much a priority as any other programme of development. The organized industry was no more controlled by the British nor was there a threat to the Indian village industries from the textile mills located in Britain. During the post-war period, a number of foreign companies changed hands. The character of conflict had changed. Instead of the foreign and organized interests *versus* Indian artisan, it was now the large Indian industrialists *versus* those who supported village and small scale Industries. Indians represented both sides.

The pre-independence view that the cottage and small industry faced direct competition from the big industries stood revised. The big was not a substitute for the small and *vice versa*. Both were to grow; in a mutually supportive manner. With a view to reducing the areas of direct confrontation, the Government of India adopted a number of specific measures such as a favorable treatment to *Khadi*, cottage and village Industries. During the period of 1952 to 1954, the All India Khadi and Village Industries Board and a board each to promote silk, coir, and handicraft, handloom and Small Scale Industries were instituted. These boards were required to recommend general policies and prepare action plans for promoting activities in their respective areas through preference in Government purchase and distribution of raw materials, fiscal and monetary concessions, and supportive administrative policies. There was, however, no special category of Industries called agro-industries. The earlier position thus stood revised. Machine was no more a synonym of colonial exploitation. Indications of the change in emphasis surfaced up soon.

Furthermore, SSIs can play a major role in the achievement of national economic and socio-political objectives.

The basic objectives underlying the development of SSIs are the increase in the supply of manufactured goods, the promotion of capital formation, the development of indigenous entrepreneurial talents and skills and the creation of broader employment opportunities and better standard of living. In addition, they include socio-economic goals such as the decentralization and dispersal of manufacturing activities from the metropolitan to the non-metropolitan and rural areas, the reduction of regional economic imbalances within a country and the diffusion of entrepreneurial and managerial abilities and skills as well as technology throughout the country. There has been an enhancement of both production and exports along with the improvement in the quality of Industrial products manufactured in the cottage industry sector thereby providing employment facility and source of income to the

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low income groups living in rural and urban areas of the country.

The main objectives for the creation of Small Scale Industries are:

- ❖ Removal of economic backwardness of rural and underdeveloped segments in the country.
- ❖ Reduction in disparities in income, wealth and consumption standards.
- ❖ Facilitation of resource mobilization, capital and skills and their optimum utilization.
- ❖ Creation of greater employment opportunities and raising of the levels of output, income and standard of living.
- ❖ Production of a substantial part of the economy's requirement of consumer goods and simple producer goods.
- ❖ Utilization of available resources.

The objective of these industries is to create immediate and permanent employment on a large-scale at a relatively small cost, to meet a substantial part of the increased demand for consumer goods and simple producer goods, to facilitate the mobilization of resources of capital and skill which might otherwise remain inadequately utilized, and to bring about an integration of the development of these industries with the rural economy.

The SSI sector constitutes the backbone of a developing country like India. The phenomenal expansion of the SSI reflects the potentialities of such Industries. Small Scale Industries occupy a commanding position in the strategy of development and these Industries have become an invaluable weapon in bringing to fruition a balanced, integrated socio-economic order in our country.

Apart from handicrafts and other traditional products, small scale industries manufacture some sophisticated products like electronic typewriters, survey equipments, security and fire alarm systems, television sets and other consumer durables. SSIs provide substantial scope for increasing employment as they are labour-intensive and they require comparatively less capital. They have lesser gestation period and can easily be set up in rural and backward areas.

#### Performance of the Small Scale Sector

Year	No. of Units (Lakh)			Production (Rs. Crores)		Employment (In Lakhs)	Exports (Rs. in Crore)
	Reg.	Unreg.	Total	(At current Prices)	(At constant price)		
1993-94	19.44	67.27	25.71 7.66	2,98,886 23.69	2,66,054 10.10	146.56 5.15	29,078 14.68
1994-95	11.61	67.99	79.60 4.1	1,22,210 23.7	1,09,116 10.4	191.40 4.8	29,068 14.9
1995-96	11.57	71.27	82.84 4.1	1,48,290 21.31	1,21,649 11.5	197.93 3.4	36,470 25.5
1996-97	11.99	74.22	86.21 4.1	1,68,413 13.6	1,35,380 11.3	205.86 4.0	39,248 7.6
1997-98	12.04	77.67	89.71 4.1	1,89,178 12.3	1,47,824 9.2	213.16 3.5	44,442 13.2
1998-99	12.00	81.36	93.36 4.1	2,12,910 12.5	1,59,407 7.8	220.55 3.5	48,979 10.2
1999-2000	12.32	84.83	97.15 4.1	2,34,255 10.0	1,70,709 7.1	229.10 3.9	54,200 10.7
2000-01	13.10	88.00	101.10 4.4	2,61,289 8.0	1,95,613 6.1	239.09 4.2	69,797 2.1
2001-02	13.75	91.46	105.21 4.1	2,83,270 8.0	1,95,613 6.1	249.09 4.2	71,244 2.1
2002-03	15.91	85.42	110.10 4.6	3,11,993 10.5	2,10,636 7.7	261.38 4.9	86,013 20.7
2003-04	16.97	96.68	113.95 4.1	3,57,733 11.6	2,28,730 8.6	271.38 4.3	97,644 N.A.
2004-05	17.53	101.06	118.53 4.0	4,18,263 11.5	2,45,747 7.4	282.57 4.2	1,24,417 27.4
2005-06	19.30	104.71	123.42 4.1	4,18,884 12.3	2,77,668 10.4	299.85 4.4	1,50,242 20.8
2006-07	20.32	108.12	128.44 4.1	4,71,663 12.6	NA	312.52 4.2	N.A.

Note: - Figures in present thesis indicate percentage growth over previous years:

Source: - Development Commission (SSI) & The Economic Survey of Govt. of India 2007-08.

They impart more vitality and growth impetus to the sector to enable it to contribute its mite fully to the economy, particularly in terms of growth of output, employment and exports.

A rewarding feature of economic development in India has been the impressive growth of modern Small Scale Industries. The Small Enterprises have, by now, established their competence to manufacture a wide variety of sophisticated goods in different product lines requiring a high degree of skill and precision. They have made a notable contribution in realizing the principal objectives of expanded employment opportunities, adoption of

modern techniques and dispersal of industries in small towns and rural areas. The SSIs have emerged as the most dynamic sector of Indian Industrial Economy and have helped in promoting entrepreneurship and earning foreign exchange for the country. These industries study the changes in tastes and fashion of consumers and adjust the production process and production accordingly. Further, the growth of this sector has made it possible to transfer the manufacturing activity from congested cities to rural and semi-urban areas and this has further helped in regional development. Since 1991, the SSI sector in India has been facing a lot of competition. Its growth has shown a decelerating trend in terms of units, employment, output and exports except for a few exceptions.

Small Scale Industries play a key role in the developing economies characterized with scarcity of capital on the one hand and unutilized manpower on the other. It has been attracting the attention of planners and policy makers in these countries in view of highly favourable capital output ratios and employment potential. The SSIs play a vital role in the country's economic development with their advantages of low investment, high potential for employment generation, decentralization of industrial base and dispersal of Industries to rural and semi-urban areas.

Small Scale Industry promotion has been one of the important objectives of India's Industrial policies and plans. For a given amount of investment, small industry generates maximum employment. Apart from employment generation, SSI works as a check on concentration of wealth. Small Scale Industries also help development of backward areas. In view of these favourable effects and also considering the problems and priorities of the economy, Government of India has accorded top priority for setting up of Small Scale Industries. The Government of India has, in fact, modified the Industrial policy over time to give support and impetus to the development of these industries.

Consequent to the priority and importance given to small industry by the Government, they have shown impressive progress in terms of number of units, their production, employment generation, exports etc.

Along with the increase in the number of SSI units, this sector has seen the development of a very disturbing phenomenon. A number of units have started falling sick and over a period of time; sickness among the SSIs was reported to be on the increase. The SSI sector faces several problems, which hamper it in achieving its full growth potential. Some of the major problems faced by the sector are access to timely and adequate credit, technological obsolescence, infrastructural bottlenecks, marketing constraints and delayed payment hassles on account of so many rules and regulations. In order to enable this sector to avail the opportunities and play its role as an engine of growth, it is essential to address these problems effectively and urgently.

The problem of the SSI sector has also highlighted the fact that a majority of SSIs still find it burdensome to bear the interest rate burden of term loans. Besides this, there are other problems as well:

- Lack of reliable and stable economic infrastructure, reduced credit inflow and technology obsolescence have led to inferior quality and productivity.

- Ensuring adequate flow of institutional credit to the SSI sector has remained a major problem despite several attempts made by the RBI over more than a decade to improve the situation.

- SIs are mostly affected by a number of problems that have hampered its absolute growth. The growth of the SSIs has been constrained by various factors, including technological obsolescence, inadequate and irregular supply of raw materials, lack of organized market channels, imperfect knowledge of market conditions, unorganized nature of operations, inadequate availability of credit, constraint of infrastructure facilities including power etc. and deficient managerial and technical skills.

One of the major problems affecting the SSI sector is the hardship of obtaining credits from the banking sector. The internal financial resources of the SSIs are held to be so small that they have no surplus money in times of business strain. This, along with the situation of unstable profits, prevents the banks from issuing them unsecured loans. As a result, many of these SSIs are still dependent for funds on money lenders who charge high interest rates.

There have also been problems related to implementation of these programs due to lack of effective co-ordination among the various support agencies. Another major issue is that the benefits of the various schemes introduced from time to time do not reach the grass root beneficiaries because of many reasons, including the failure of the trickle-down effect.

The major challenges faced by the SSI sector are non-availability of free loans, delayed payments, lack of marketing, industrial sickness, scarce availability of human resource and non-availability of technology which are clearly visible through the decline of their overall performance. Those who have tried to obtain loans from the various financial institutions have only faced corruption associated with grant of loans and long delays in

delivery. Other related problems include delayed payments, high cost of borrowings and inadequate credit. SSIs faced numerous problems-major and minor, which make them either uncompetitive or sick.

Realizing the situation, the Government, has started taking measures to support the sector through the provision of loans on priority basis, organizing fairs and participating in International fairs and providing funds for research and development. Different Industries under the SSI sector are now trying to capture the factors for the future growth of the sector. The joint involvement of both the Government and the private sector is going to face the challenges thrown by the global giants.

The sector has been substantially delicensed. Further efforts would be made to deregulate and de- bureaucratize the sector with a view to remove all filters on its growth potential, thereby reposing greater faith in small and young entrepreneurs. All statutes, regulations and procedures would be reviewed and modified, wherever necessary, to ensure that their operations do not militate against the interests of the small entrepreneurs.

The promotional measures include-

- Industrial extension services.
- Institutional support in respect of credit facilities.
- Provision of developed sites for construction of sheds.
- Provision of training facilities.
- Supply of machinery on hire-purchase terms.
- Assistance for domestic marketing as well as exports.
- Special incentive for setting up enterprises in backward areas.
- Technical consultancy and financial assistance for technological up gradation.

Most of the Institutional support services and some incentives are provided by the Government to attract investments and promote Small Industries with a view to enhance Industrial production and to generate employment in their respective States. In order to protect, support and promote Small Enterprises as also to help them become self - supporting, a number of protective and promotional measures have been undertaken by the Government.

The growth of SSI has surpassed overall Industrial growth from 1991 onwards and augments a bright future. However, this has to be viewed in the background of the general recession in the economy. The transition period of the process of economic reforms was also affected for some period by adverse factors such as foreign exchange constraints, credit squeeze, demand recession, high interest rates, shortage of raw material etc.

In order to protect, support and promote small enterprises as also to help them become self - supporting, a number of protective and promotional measures have been undertaken by the Govt. The promotional measures cover industrial extension services, institutional support in respect of credit facilities, provision of developed sites for construction of sheds, provision of training facilities, supply of machinery on hire - purchase terms, assistance for domestic marketing as well as exports, special incentive for setting up enterprises in backward areas etc., technical consultancy and financial assistance for technological up gradation. While most of the Institutional support services and some incentives are provided by the Central Government, others are offered by the State Governments in varying degrees to attract investments and promote Small Scale Industries with a view to enhance industrial production and generating employment in their respective states.

The promotional and protective policies of the Government have ensured the entry of this sector in an astonishing diverse range of products, particularly in consumer goods. However, the bugbear of the sector has been the inadequacies in capital, technology and marketing. The coordinated efforts of entrepreneurs, coordinated functioning of promotional agencies, Government assistance, proper product development, product diversification and also upgrading the managerial skills of the small scale industries and their key officials is needed with removal of red tapeism and bureaucratic delays.

The tenth plan has laid emphasis on enhancing information flow about technology sources, facilitating such transfers and funding up gradation activity through capital subsidy scheme of SIDBI Government of India pattern.

Promotional measures aim at increasing the efficiency and economic viability of small units by providing infrastructure facilities and improving access to markets. On the other hand, protective measures give small units preferential treatment. Continuous measures are those benefits which a small unit may avail of as long as it falls under that category, while one shot measures are those which may be availed of only once and tends to be discretionary in nature. Most policies like preference in Government purchases, lower interest rates etc. are continuous in nature. Discretionary measures are those, which require an examination on a case-by-case basis and



are not blanket measures available to all units, which fall under the definition of small industries. Non-discretionary by implication, are those measures which are based on some objective criteria and are applicable to all units that meet the criteria.

The Government has also provided measures such as greater infrastructural support, more and easier availability of credit, low rates of duty, technology upgradation, and assistance to build entrepreneurial talent facilities for quality improvement and export incentives.

The coverage of Micro, Small and Medium Enterprises sector was broadened significantly under the micro, small and medium enterprises Development (MSMED) Act 2006. The Act has defined the enterprise for the first time. The 4<sup>th</sup> census of MSME sector is being launched and has shown MSME sector much higher than those based on the 3<sup>rd</sup> All-India census to capture the data for the MSME sector.

The Government of India has taken major initiatives to revitalize the MSME sector. They include the following points:

- There has been implementation of the Micro, Small and Medium enterprises Development (MSMED) Act, 2006.

- In Feb 2007, a package for promotion of micro and small enterprises was announced, which includes measures addressing concerns of credit, fiscal support, cluster-based development, infrastructure, technology and marketing and the important feature of this package was also to support the women entrepreneurs.

- The modifications have been made to make the credit guarantee scheme more attractive: (a) enhancing eligible loan limit from Rs. 25 lakhs to Rs. 50 lakhs (b) raising the extent of guarantee cover from 75 per cent to 80 per cent for (1) micro enterprises for loans up to Rs. 5 lakhs. (2) MSEs are operated or owned by women and (3) all loans in the North-East Region and (c) reducing one-time guarantee fee from 1.5 per cent to 0.75 per cent for all loans in the North-East Region.

- The phased deletion of products from the list of items reserved for exclusive manufacture by micro and small enterprises is being continued. 125 items were deserved on March 13, 2007, reducing the number of items reserved for exclusive manufacture in micro and small enterprises sector to 114. Further, 79 items were de-reserved through a notification dated Feb 5, 2008.

- As prescribed by Nayak Committee, the Government has provided adequate institutional credit to SSIs sector by fixing the working capital limits of SSIs units by the financial institutions at a minimum of 20 percent of their projected turnover. The Government has further educated the small scale entrepreneurs about economies of scale, arrangement for upgradation of skills and technologies and strengthening the promotion of SSIs by export capabilities.

- The Government, for the prospects of SSIs, plays the supportive role in a free economy and adequate measures are provided to meet the challenges.

After Independence, the Small Scale units have been increased in number, range and total value of their production. Small Scale units are near the Industrial complexes. These SSIs are not found in less developed states.

- SSIs are generally labor-intensive sector and do not require a large amount of capital. They provide maximum employment next only to the agricultural sector. They are the source of work during lean period of agricultural season and also offer promising opportunities to educated unemployed in the urban areas to become self employed. With the development of Small Scale Enterprises, jobs can be created in the rural areas of the developing countries where unemployment and underemployment is high. This can reduce the exodus of workers from the rural to the urban areas in search of jobs.

- One of the policies of the Government is the dispersal of manufacturing, away from the metropolitan areas; Small Scale Enterprises will make possible a transfer of manufacturing activities from the congested metropolitan to the non-metropolitan and rural areas. This will help in bringing about a geographical diffusion of skill and technology in the country.

- Imperfect competition protects the small firms markets and enables them to exist even where they are efficient in terms of cost. Small scale units will have to thrive by competing with the large scale sector, the small scale industries must make adequate publicity of their products. Some funds are to be set aside and although initially the profits may be low, marketing expenditure will serve the cause of future profitability.

- Competitiveness in SSI could be achieved through technological innovation, which will enable SSI to manufacture new-fangled products and achieve various economies of scale that basically accrues to large-scale sectors. The cluster approach can help these Industries to introduce innovative marketing. The facilities in cluster may include information dissemination, establishment of design center, quality awareness programs, testing

facilities, technology upgradation etc., which becomes a part of Research and Development and the diffusion of innovation takes place at a faster rate in cluster form. The small manufacturers can invest in R&D to find ways to reduce the cost of production by bringing in new and more advanced technologies. The Government can help by providing subsidies on raw material.

➤ For protecting, supporting and promoting small enterprises as also to help them become self-supporting; protective and promotional measures have to be undertaken by the Government. The measures may include institutional support in respect of credit facilities, provision of developed sites for construction of sheds, provision of training facilities, supply of machinery on hire purchase terms, assistance for domestic marketing as well as exports, special incentive for setting up enterprises in backward areas.

With the changing Economic Scenario, there has been a considerable increase in the number of Small Scale units and the total value of their production. RBI Annual Report 2007- 08 shows the flow of Credit to Micro & Small Enterprises as follows:

*The total outstanding credit provided by public sector banks to micro and small enterprises sector as on the last reporting Friday of March 2008 was Rs.1,48,651 crore, constituting 10.9 per cent of adjusted net bank credit (ANBC) and 24.4 per cent of their total priority sector advances. The total credit provided by private sector banks to small enterprises sector as on the last reporting Friday of March 2008 was Rs.46,069 crore; constituting 13.4 per cent of ANBC and 28.2 per cent of their total priority sector advances. Public sector banks were advised to operationalise at least one specialized SME branch in every district and centre having cluster of SME units. At the end of March 2007, 636 specialized SME bank branches were operationalised by the banks. The share of loans to SME to the total bank credit for the public sector bank has declined since 2002. However, the latest trend up to March 2008 has indicated a turnaround.*

The business of these units can compete on cost, quality and products at domestic and international level only if ideal investment in technology production process, R&D and adequate marketing arrangements are made. Even the Eleventh Plan (2007-2012) has recognized the importance of the small-scale sector, and has an effective package for its survival and support in the coming phases of the reforms process. The Government has always tried to promote and support the SSI sector by providing necessary incentives to meet the emerging competition from large industries including multinationals.

These industries suffer from lack of reliable and stable economic infrastructure, reduced credit inflow and technology obsolescence thereby leading to inferior quality and low productivity. In the light of global competition, technology development innovations should be made, financial infrastructure should be broadened and adequate inflow of credit to the sector be ensured taking into consideration the growing investment demand for the Small Scale Industries' survival and growth.

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