

CHAPTER - VII

CHAPTER - VI**PROBLEMS OF SMALL SCALE INDUSTRIES**

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CHAPTER - VI

PROBLEMS OF SMALL SCALE INDUSTRIES

VI.1 Introduction

We have already been seen in previous chapters that how small scale units play a major role in Indian Economy and various provisions and policies made by Government time to time, but in fact, small enterprises are seriously handicapped in comparison with larger units by several reasons, major problems and difficulties of small scale units may be stated as :

- A) Competition from imported articles and from large scale units within the country
- B) Shortage of sufficient raw materials
- C) Paucity of requisite finance
- D) Lack of machinery and equipment suited to SSI
- E) Inferior quality and standard of production and
- F) Absence of producer's organisations to put forward their case before the appropriate authorities.

These problems are capable of solution both by voluntary action on the part of industry and by suitable assistance from Government.

VI.2 Competition

In such cases, the programme of production can be so devised as to provide for -

- I) Definite quotas out of the consumption schedule of the country being set apart from small scale industries in respect of those goods which can be had from both categories of industries.
- II) Production of the various parts of an article by the small scale units in a particular industry, the parts being assembled in large scale factories and
- III) The establishment of new units in a particular line of production being allowed by small units instead of by large scale units.

VI.3 Raw Materials

In view of the fact that small scale industries have not yet organised themselves into well knit associations for the promotion of mutual interests. The Central and State Governments should see that necessary quotas of raw materials such as pig iron,

steel bars and billets, yarn, dyes and chemicals, machinery and equipment as the case may be are allocated to small scale industries. This applies equally to such raw materials as have to be imported and are required by small scale industries.

VI.4 Finance

At present the financial disability of small enterprises is beyond question. Their internal resources are so small that they have no surplus to live on during the period of business strain. This leads to instability of their profits which defers banks from giving unsecured loans. Financial assistance to SSI is rendered by State governments under the State Aid to Industries Acts or Rules for grants-in-aid and similar regulations. The establishment of Industrial Finance Corporation in States would provide a channel for assistance to small units. It is desirable that, whenever conditions permit, such corporations should be set up whose primary aim should be to assist medium sized and SSIs.

VI.5 Machinery and Equipment

In view, limited capital resources of small entrepreneur there is urgent need for the manufacture of machinery within the country suited to small sized units for the purpose of increasing production and reducing cost.

There is a need for central workshop in suitable localities under Government auspice and where possible, in co-operation with large engineering establishment.²

VI.6 Standards and Quality

The central workshops whose establishment has been suggested in above paragraph should go along way in achieving these objectives. The importance of applying technology in the development of small scale industries should be fully recognised. Research in design and techniques is no less necessary for SSI than for larger scale industries and various technical problems thrown up by such industries should receive the prompt and careful attention of national laboratories and institutes.

VI.7 Organisation of SSIs and Producers

The inherent weakness of the existing SSIs are the absence of well organised association, representing such industries capable of placing their case before the proper authorities in regard to their difficulties and problems.

It is, therefore, necessary to organise associations of small manufacturers. Eventually, such small units depend upon initiative and enterprise which has to be encouraged and facilities such as power and communication should be made available

to them. These associations of SSI can assist the constituent units in consultation with the Department of Industries in the States and the Development wing of Ministry of Commerce and Industry at the Centre.

VI.8 Need for Survey of Small Scale Industries

The ill organised state of SSI is one of the main reason for the absence of reliable information in regard to the total capital or the total number of workers employed in such industries at present.

In fact, a detailed survey has not so far been undertaken to ascertain the conditions and problems of SSI as such, and it is essential that this work should be undertaken without delay by the Ministry of Commerce and Industry in close co-operation with the departments of industries in various States. Technical assistance, where is necessary could be obtained from international agencies for this purpose.³

VI.9 Industrial Sickness in Small Scale Industries

Industrial sickness is a major problem faced by SSIs in India. Several studies have been made to determine the extent and the causes of sickness in SSI which reveals the following facts:

- A) Lack of proper management of small units is one of the important causes of sickness because most entrepreneurs keep high overhead costs, borrow at high rate of interests and do not care for making economies in costs.
- B) Non observance of the basic principles of business management.
- C) Under utilisation of capacity caused by lack of working capital, lack of demand and non availability of raw material results in industrial sickness.
- D) Easy approval of SSI by the State without proper screening of project proposals also resulted in sickness.
- E) The dead units depended mostly on their own funds. Among the dead small units own funds accounted for 89% of gross investments.
- F) Non payment by the principles to the ancillaries has been noted as an important cause of industrial sickness.

Report of the Second All India Census of small scale units stated that financial problems was stated as the major reason for closure of 35% of the units. This was more or less the case in every industry. In case of 14.4% units marketing problems was stated as the reason of closure, the reason raw material non availability for closure by 5.6% and 2.2% were stated to be closed down due to labour problems.⁴ Analysis of the reasons for sickness of SSIs and in closure is shown in Table No. VI.26.

Table No. VI.26

Percentage of Reasons for Closure of Small Scale Units

No.	Reasons	Percentage
1	Financial Problems	34.7
2	Marketing Problems	14.4
3	Raw Material Problems	5.6
4	Disputes among owners	3.7
5	Natural calamity	3.5
6	Labour Problems	2.2
7	More than one reasons (combined)	16.5
8	Other reasons	19.4
	Total	100.00

Source : Compiled and computed from the data provided in The Report of The Second All India Census of Small Scale Industrial Units, p.159.

References

1. Planning Commission, Government of India, First Five Year Plan, Draft Outline, July, 1957, pp. 162-166
2. Cherunilam Francis, Industrial Economics, Indian Perspective, 1994, Himalaya Publishing House, 3rd Edition
3. Second Five Year Plan, Summary, 1956, Government of India, Planning Commission, new Delhi, pp. 134-144
4. Report of The Second All India Census of Small Scale Industrial Units (1992), p.156-159.