

Determinants of Competitiveness of Small-Scale Industries

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Abstract—Small scale industry is widely recognized as a powerful instrument for socioeconomic growth and balanced sectoral development. One of the distinctive characteristics of small scale sector is that the development of these industries would create broader employment opportunities assisting entrepreneurship and skills development and ensure better use of scarce financial resources and appropriate technology. Furthermore, they can play a main role in achievement of national economy and sociopolitical objectives, the gestation period is very short and they need small amount of capital to start. It also helps in the dissemination of production capacity unlike the large scale industries which tend to concentrate in a few hands. This apart, establishment of such industries in rural areas and small towns helps to check the influx of population into bigger towns. 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.

Small industries which produce goods for local consumption play an important role in a healthy economy. Appropriate Technologies are small-scale, more labour intensive than capital intensive, culturally-relevant, and sustainable technologies appropriate for particular environmental conditions, social contexts, and economic situations. It also includes the recognition that technologies can embody cultural biases and sometimes have political and distributional effects that go far beyond a strictly economic evaluation. Appropriate Technologies are not appropriate for all situations, but are more about local people using local knowledge and resources to meet their needs without compromising the ability of future generations to do the same. Therefore it involves a search for technologies that have, for example, beneficial effects on income distribution, human development environmental quality, and the distribution of political power in the context of particular communities and nations.

1. SICKNESS IN SMALL SCALE INDUSTRIES: CAUSES AND REMEDIES

A sick industrial unit is like a patient at home. A patient, in addition to suffering from ailment himself, causes inconvenience to others and, often, spells ruin to the family, particularly when the treatment is prolonged and expensive. A sick unit too will have serious repercussions on the economy as a whole, besides adversely affecting the interests of the people directly connected with it. The objective of the present

paper is to study the performance of small-scale industries and magnitude of sickness in small-scale industries. It also attempts to examine the viability position of small-scale industries, highlights the problems associated with these industries and to lay down the suggestions to overcome these problems.

Sickness in the industrial units is not a new phenomenon as is evident in the developing countries. Even in the industrially advanced countries of the world, varying degrees of sickness are found to occur. An industrial unit may face a number of odds during its implementation and operation stage because of a number of factors in the environment – internal and external. If the problems perpetuate & does not permit the unit to pursue the normal course of operations leading to reasonable utilization of capacity, generation of surplus, debt servicing, etc, it can be presumed that some kind of sickness has engulfed the unit and if this trend grows unchecked, it would adversely affect production and employment in the country besides other socio-economic repercussions. However, it is also recognized that in a market economy, the survival of the fittest and weeding out of inefficient industrial units is a natural outcome which is considered useful as well. The exit of the non-competitive and loss-incurring units should not pose difficulty to any society. But sickness assuming an epidemic shape creates concerns to the policy makers and stakeholders. Experience suggests that small scale industries are more prone to sickness as compared to medium and large scale industries. In this context, sickness in small industry should not be left only to the market forces. Creation of objective conditions and enabling environment through suitable policy support are essential for sustained growth of the small industry sector in the developing economies. It is, therefore, imperative to diagnose the causes of sickness so that preventive measures are suggested. Even if a small unit turns sick despite taking all possible precautionary measures, efforts should be made to find out the possibility of its revival. This warrants appropriate package of restructuring and rehabilitation strategies. If the unit's survival is still under threat, it should be better allowed to die a natural death.

2. CONTRIBUTION OF SMALL INDUSTRY

While pursuing the industrial development efforts, the major objectives and strategies should be focused on optimum utilization of indigenous resource endowments (e.g., abundant labour and 3 scarcity of capital), promotion of employment and catalyzing the growth of production and exports. In this regard, the strategy for development of small industries merits special attention of the policymakers in accelerating industrial development of the developing countries. The importance of small industry in the economic development process has been recognized in all official documents relating to policy prescriptions for the industry sector. The development of small industry has been justified on grounds of : (i) labour intensity (ii) use of indigenous raw-materials, (iii) lower capital-output ratio (iv) generation of employment at minimum investment cost (v) equitable distribution of income, (vi) regional distribution of industrial investment, (vii) reduction in fixed investment costs through sub-contracting tie -ups, (viii) foreign exchange earnings through exports/imports substitution, (ix) building up entrepreneurial base through trial and error at low cost, (x) introduction of new/appropriate technology at low cost, etc.

3. EXTENT OF SICKNESS

Industrial sickness is growing at an annual rate of about 28% and 13% respectively in terms of number of units and outstanding number of bank credit. It is reckoned that as of today there are more than 2 lakhs sick units with an outstanding bank credit of over Rs7000crore nearly 29000 units are added to sick list every year. Industrial sickness especially in small-scale Industry has been always a demerit for the Indian economy, because more and more industries like – cotton, Jute, Sugar and Textile small steel and engineering industries are being affected by this sickness problem.

4. SIGNALS OF SICKNESS

The following actions of the unit indicate that the unit is sick or going to be sick:

1. Continuous irregularity in cash credit accounts.
2. Low capacity utilization.
3. Profit fluctuations, downward sales and fall in profits followed by contraction in the share market.
4. Failure to pay statutory liabilities.
5. Larger and longer outstanding in the bills accounts.
6. Non submission of periodical financial data, stock statement etc in time.
7. Financing capital expenditure out of funds provided for working capital purposes.
8. Rapid turnover of key personnel.
9. Existence of large no. of law suits against a company.
10. Rapid expansion and too much diversification within a short time.
11. Any major change in the share holdings.

Causes of sickness of Small Scale Industries

1) Internal Cause for sickness

We can say pertaining to the factors which are within the control of management. This sickness arises due to internal disorder in the areas justified as following:

a) Lack of Finance

This including weak equity base, poor utilization of assets, inefficient working capital management, absence of costing & pricing, absence of planning and budgeting and inappropriate utilization or diversion of funds.

b) Bad Production Policies

The another very important reason for sickness is wrong selection of site which is related to production, inappropriate plant & machinery, bad maintenance of Plant & Machinery, lack of quality control, lack of standard research & development and so on.

c) Marketing and Sickness

This is another part which always affects the health of any sector as well as SSI. This including wrong demand forecasting, selection of inappropriate product mix, absence of product planning, wrong market research methods, and bad sales promotions.

d) Inappropriate Personnel Management

The another internal reason for the sickness of SSIs is inappropriate personnel management policies which includes bad wages and salary administration, bad labour relations, lack of behavioral approach causes dissatisfaction among the employees and workers.

e) Ineffective corporate management

Another reason for the sickness of SSIs is ineffective or bad corporate management which includes improper corporate planning, lack of integrity in top management, lack of coordination and control etc.

2) External causes for sickness:

a) Personnel Constraint: The first for most important reason for the sickness of small scale industries are non availability of skilled labour or manpower wages disparity in similar industry and general labour invested in the area.

b) Marketing Constraints: The second cause for the sickness is related to marketing. The sickness arrives due to liberal licensing policies, restrain of purchase by bulk purchasers, changes in global marketing scenario, excessive tax policies by govt. and market recession.

Some Marketing Reasons are:

1. Poor marketing strategy
2. Imbalance between production & marketing

3. Wild market shifts
4. Lack of awareness of consumer's preferences .
5. Poor market performance
6. Poor distribution network
7. Lack of specific market segmentation

c) Production Constraints: This is another reason for the sickness which comes under external cause of sickness. This arises due to shortage of raw material, shortage of power, fuel and high prices, import-export restrictions. Some Production Reasons are:

1. Faulty Product Mix
2. Acklog of Production
3. Poor Quality of end product
4. Delayed delivery schedule

d) Finance Constraints: another external cause for the sickness of SSIs is lack of finance. This arises due to credit restrains policy, delay in disbursement of loan by govt., unfavorable investments, fear of nationalization.

5. SOME FINANCIAL REASONS ARE

1. Low Profitability
2. Low fund generation
3. Poor liquidity
4. Step Cost structure
5. Lack of financial resources
6. Lack of credit facility
7. Faulty credit utilization
8. Low share value

6. EFFECT OF SICKNESS

Industrial Sickness contributes to high cost economy. This in turn, will affect the competitiveness of the economy at home and abroad. Dead investment is a burden on both banks and budgets and ultimately consumers should pay the high cost. Money locked up in sick units gives no returns and effects the availability of resources to the other viable units

7. REMEDIES

Majority of sick units is retrievable in order to tackle the problem of sickness from the two angles the role of three agencies assumes significance: a) The government b) Financial institutions and the industry associations

a) The Role of Government: If the number of units in the country has increased some 10 times since independence and if we have diversified industrial structure with wide spread

entrepreneurship the credit for this largely belongs to government.

Second area where the government can be helpful is Vis-à-vis industrial licensing. The very existence of licensing and monopoly regulation legislation implies that there is a stampede to "to get in" whenever licensing is liberalized for an industry or an economy as a whole.

b) The Role of Financial Institutions: The following are the ways by which sickness can be prevented by financial institutions:

- a) Continuous monitoring of unit
- b) Careful project appraisal
- c) Professional institutional response to unit's problems
- d) Required systems at client units
- e) Incentives to units to remain healthy

c) The Role Of Industry Associations: A good practical review by each industry association of installed and usable capacity in the industry , capacity utilization , growth trends , problems etc should be useful 4 the potential new entrants 4 deciding whether 2 enter the industry or not. The industry can have some sort of 1st aid cell this could consist of professionals who could go to the aid of a unit that is beginning to fall with the offer of managerial and technical help also.

8. CURATIVE MEASURES:

These measures include how to cure the sickness after it has crept in. There are lots of agencies which help cure Industrial sickness.

There is Industries (Development and Regulation) Act, 1951, which provides for the takeover of a sick unit by the Government of India. Before resorting to a takeover, other alternatives like rehabilitation through the concerned state government and financial institutions or for the merger of a sick unit with a healthy unit could be explored.

Then there is the Sick Industrial Companies (special provisions) Act, 1985, which was passed by parliament and received the assent of president in January 1986. It was amended in December 1991 so as to bring government companies within the preview of the Act.

Further, there is the Industrial Reconstruction Bank of India (IRBI) which came into being on March 20th 1985 by converting the erstwhile Industrial Reconstruction Corporation of India. It provides assistance for reconstructions and rehabilitation of the sick industrial units by granting those loans and advances, underwriting shares and debentures etc.

For the sick units in the small scale sector, separate facilities are available. State Finance Corporations and commercial banks will be asked to devise a scheme for the rehabilitation of

sick units in the small scale sector, and the assistance given by them for the revival of such units will be eligible for refinancing by the IRBI at the concessional rate of interest.

9. CONCLUSION AND SUGGESTIONS

The government has taken a lot of steps of control the sickness in SSIs. More financial assistance is being provided to SSIs and special role has been assigned to SIDBI, SFCs and Commercial Banks. Also nursing programmes has been started for rehabilitation of sick units and various schemes for modernization and up-gradation of technology has been undertaken to prevent sickness but it is still a severe problem of small-scale industries. The situation of sickness is getting worse day by day. The government policies and programs are not providing meaningful results. Not only new entrepreneurs are being discouraged but also existing ones are at dead line. The evidences indicate that small-scale industry can be an important vehicle for meeting growth and equity objections of developing economies. The government would therefore, be fair to foster entrepreneurship and should help to create conducive environment to facilitate rapid growth of small-scale industries in India.

Industrial sickness is not a sudden phenomenon but it is a gradual process taking 5 to 7 years eroding the health of a unit beyond cure. Therefore, the identification and detection of the sickness at incipient stage is the first and foremost measure to detect and reduce industrial sickness. It will be helpful in reducing the number of non-viable sick SSI units, which are approximately 90 percent of the total sick units. Merger of

viable sick units with the healthy units is another effective measure to cure the sickness in viable sick units. The problem of growing incidence of sickness in SSIs has been one of the persisting problems in the country causing wastage of resources and efforts. Sincere efforts need to be taken by the government in this regard. The suggestions given above, if taken care of, will play a very significant role in solving the problem of sickness in SSIs.

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