

Role and Challenges of SSIs in Changing Business Environment

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Abstract

The small scale Industries (SSIs) sector has emerged as a dynamic sector of the Indian economy. This sector is important not only for its contribution to GDP but also for its continuous increase in exports and generating employment. The growth of this sector over the decades after independence is really breathtaking. The SSI sector happens to be at crossroads at present juncture. The new economic conditions have thrown up new challenges in the form of competition and opportunities for scaling new heights. The small industries are now not only have to face competition from Indian companies, but are poised to face stiff competition from multinational companies also. So, in the context of economic reforms and globalization the SSIs must be competitive for their survival and growth . There is an imminent need also to upgrade its technology as per global business environment.

Key Words: SSI, Globalization, Liberalization

1. INTRODUCTION

Small scale Industries (SSIs) are the pillars of industrial economy of India. It has a prominent place in the socio-economic development of our country. Although they are small in term but play a vital role in the Indian economy. Its development creates vast employment opportunities for the people, effects decentralization of industries by the creation of industrial estates and makes possible redistribution of economic power and income .SSIs are widely recognized as a powerful instrument for socio- economic growth and balanced sectorial development .These are supplementing and complementary to large and medium scale units as ancillary units ,considering the large employment level and backlog of creation of new jobs to provide employment to all able persons.

The main objectives of the programme of the development of SSIs are the creation of maximum amount of job opportunities , including self-employment ,ventures with small doses of investment production of consumer goods on a large –scale, mobilization of local skills and capital; and dispersal of units into semi-urban and rural areas.

2. SIGNIFICANCE OF S.S.I. IN THE ECONOMY

Small Scale Industries(SSIs) play a key role in the industrialization of a developing country. This is because they provides immediate large scale employment and have a comparatively higher labor capital ratio; they need a short gestation period

and relatively smaller markets to be economic; they need lower investments, offer a method of ensuring a more equitable distribution of national income and facilitate an effective mobilization of resources of capital and skill which might otherwise remain unutilized; and they stimulate the growth of industrial entrepreneurship and promote a more diffused pattern of ownership location. Small Scale Industries have stimulated economic activity of a far reaching magnitude and have played a significant role attaining the following major objectives.

- Attainment of self-reliance.
- Reduction of regional imbalances.
- Elimination of economic backwardness of rural and underdeveloped regions in the country.
- Reduction of disparities in income, wealth and consumption.
- Mobilization of resources of capital and skills and their optimum utilization.
- Creation of greater employment opportunities and increased output, income and standard of living.
- Meeting a substantial part of the economy's requirements for consumer goods and simple producer goods.
- Provide employment and a steady source of income to the low-income groups living in rural and urban areas of the country.
- Provide substitutes for various industrial products now being imported into the country.
- Improve the quality of industrial products manufactured in the cottage industry sector and enhance both production and exports.

3. GROWTH OF S.S.I. IN INDIAN ECONOMY

The growth of SSI sector over the decades after independence is really remarkable. The growth and development of this sector may be explained by means of the year-wise data under different heads such as number of units, employment, Investment, production and exports. The following table indicates the growth of SSI Sector in India. In terms of number of units, employment, investment, production and exports over the period from 2000-01 to 2008-09.

The data in the table shows the contribution of the SSI sector of India to the economic development of the country. This contribution is to be carried out in mainly three dimensions as given below:

a) Employment Opportunities: This sector in India creates employment opportunities in large scale, next only to agriculture. The employment through SSI has been tremendously increased from Rs. 238.7 Lakh during the year 2000-01 to Rs. 659.4 Lakh during the year 2008-09. The total number of new jobs created during the period 2000-01 to 2008-09, 420.7 Lakh by this sector. It can be easily realized that the employment opportunities provided by the SSI sector is showing a general increasing trend. Thus the SSI sector India has played a very important role in providing employment opportunity.

b) Production: The economic development of any economy is basically measured in terms of output of that economy. The year-wise production (at constant prices) are given the following table. It indicate that during the period 2000-01 to 2008-09, the total production of SSI sector reached up to Rs. 880805 crore from Rs. 261297 crore with the annual average of Rs. 502425 crores.

c) Export Contribution: In addition to the above two dimension, the role of SSI sector in the export of India is also remarkable. In 2000-2001 the total export of SSI Sector was Rs. 69797 crore While it increased up to Rs. 202017 in the year 2008-09. Table shows that exports from SSI sector in India in different year since 2000-01 to 2007-08 continuously increasing.

4. CHALLENGES FOR SSIs

Initially, the SSIs, were characterized as traditional labour intensive units with out-dated machineries and inefficient production techniques, but in the recent past the condition of SSIs have improved. Today they have installed modern machines, applied better management techniques and are much more productive than before. The Government of India establish the ministry of small scale sector to make policy decision for the development and well being of SSIs. Besides the efforts from the Government of India, the 21st century is a time of great change in growth and learning. The process of globalization has not only introduced new dynamism, opened up new

Table – 1
Contribution of SSIs in India Economy

Year	No. of units	Employment	Investment	Production	Export
2000-01	101.1	238.7	N.A.	261297	69797
2001-02	105.2	249.3	160673	282270	71244
2002-03	109.5	260.2	169579	311993	86013
2003-04	114.0	271.4	178269	357733	97644
2004-05	118.6	282.6	178699	429796	124417
2005-06	123.4	294.9	188113	497842	150242
2006-07	261.0	594.6	500758	709398	182538
2007-08	272.8	626.3	558190	790759	202017
2008-09	285.2	659.4	621753	880805	N.A.

Source: Economy Survey, Ministry of SSIs, Govt. of India, 2009-10

opportunities, and well as has changed the business environment fundamentally in following four ways:

- It has broken down barriers by connecting people across the world
- It has created information equality.
- It has created a medium for a type of industry to expand globally.
- Information technology has opened up revolutionary ways of understanding , interacting and servicing the customer.

With the advent of rapid globalization the SSI sector faces new challenges and new threats. The process of globalization has impacted SSIs much more than larger business enterprises. The opening up of national economies, the coming down of trade barriers, the constant arrival of new range of products, and the introduction of even new processes of production and service provision, have transformed the business operation of small scale entrepreneurs. SSI units irrespective of their size need technology upgradation and modernization also.

The biggest problem facing the SSI sector is the unavailability of adequate financing facilities. According a survey conducted by World Business Environment covering 4000 firms in 54 countries found that SSIs cited inadequate access to finance as their primary constraint for growth. India is one of those 54 countries also.

The priorities earlier before liberalized era, enjoyed by SSIs have vanished, particularly with

reference of soft loans having interest at around 2 % less than medium and large units. When bank tasted the freedom of liberalization during the 1990s, SSIs units seem to have been hit the hardest.

Non availability of adequate capital for investments and difficulties in accessing the capital market is the hallmark of the SSI sector. SSIs have limited access to capital markets, including foreign capital by way of FDI's which forces these to depend on banks and finance institution for funds.

Inadequate institutional framework for assistance and lack of technologies advancement & updation are the challenges faced by SSIs in India also. For a sector that contributes about 40% of industrial productions, SSIs lack infrastructure inputs or government backing.

Besides the above challenges, growing incidence of sickness is yet another area of concern for the SSIs, because when the sickness prolongs it leads to the closure of units and unemployment.

The SSIs sector showed remarkable progress in last two decades. In early 1990s the Indian economy had witnessed dramatic policy changes. Some reforms were initiated with regard to industries. Trade and social sector to makes the economy more competitive. The decade poses a challenge to the Indian economy and in particular, to the SSIs. In the past, the industry had prospered in a somewhat secure environment enjoying protection in different ways. Recently however the environment has changed and industry had to face major changes which have come about in greater frequencies.

Some of these changes have been brought about by internal factors whereas other has been induced by international changes.

In the last few years, small industry has learned to live with uncertainties such as inflation , demand recession and market instability. As we look into the future, it may have to endure a situation which is prone to request changes. In a situation like this, strategies have to be continuously reviewed and changed from time to time. The process of liberalization and economic reforms which creating tremendous opportunities for the growth of SSIs have thrown up new challenges to the sector. Building competitive strengths, technology upgradation and quality improvement are the vital issues which needed to be addressed so as to build capabilities of the sector to withstand emerging pressures and ensure sustained growth .There is also a need of integration of the sector with the overall domestic economy and global market by gearing itself to greater interdependence and networking.

5. CONCLUSION

In the current business scenario for the SSI sector to achieve economic efficiency and international

quality standards. There is an imminent need to upgrade its technology. While the settling up of the Technology Bank as announced in the comprehensive policy packages for SSIs, would facilitates technology transfer and match making, creation of a separate Small Industries Development Fund at the earliest would meet the much needed financial requirements of the sector for mass scale technology up gradation. As is known, the process of liberalization and globalization has necessitated technological up gradation and the building of appropriate marketing and other related infrastructure. Entrepreneurs need to hasten the transition from existing level to higher standards in terms of quality and design in order to become internationally competitive.

Thereafter, constant adaption and innovation would hold the key to sustained competitiveness. In order to do so, there is a need for internalizing, not only new technology, but also effective management techniques and economies of scale. The key to success for small scale industries would lie in looking at the globe as a market and reposition itself as a means to get into the global market place and succeed out there.

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