

A Study on Challenges of Small Scale Industries in Erode District

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ABSTRACT: Small scale industries (SSI) refer to those small entrepreneurs who are engaged in production, manufacturing and service at a micro scale. Small scale industries play a focal role in the economic and social development of India in the post-independence era. SSI is the backbone of a developing economy with its effective, efficient, flexible and innovative entrepreneurial spirit. The contribution of SSIs to the Indian economy in terms of employment generation, reducing, regional imbalances, promoting inter-sectoral linkages, magnifying exports and economic growth potential has been quite marvellous. This sector through more than 6000 products ranging from traditional to high-tech, consisting over 36 million units widely dispersed across the country provides employment to over 80 million persons, contributes about 8% to country's GDP beside accounting for 45% of manufactured output and 40% to the export from the country. The SSI sector has the prospective to spread industrial growth round the country and can be a considerable associate in the progress of comprehensive growth. The target of proposed National Manufacturing Policy of enhancing the share of manufacturing sector in GDP to 25% and to create 100 million jobs by end of 2022, as well as to take India from its present 2 trillion dollar economy to 20 trillion dollar economy can be achieved with the help of SSI units. The paper attempts to discuss the role of small scale industries in developing the economy and explore the various problems faced by it.

Keywords: Indian economy, employment generation, GDP, growth potential.

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I. INTRODUCTION

India is predominantly an agricultural country. Apart from agriculture, small scale & large scale industries have been also developed. Small scale industries are the backbone of our industrial structure as they provide a variety of non-traditional and low technology products. They are also engaged in the processing, preserving, manufacturing & servicing activities and play a vital role in balanced and sustainable economic growth. Thus, a proper development of small scale industries is essential for the healthy growth of economy. The primary object of developing small scale industries in rural areas is to generate better employment opportunities, raise income levels and living standards of the people. Small scale industries are essential for providing subsidiary or alternate occupations and utilization of local labour & raw materials. They facilitate an effective mobilization of resources of capital and skill and also stimulate the growth of industrial entrepreneurship. Thus, the development of small scale industries is an integral part of the overall economic, social and industrial development of a country.

Definitions Of Small Scale Industries.

- A. The Small Scale Industries Board(1955) – “A unit employing less than 50 persons if using power and less than 100 persons without the use of power and with capital assets not exceeding Rs. five lakhs.”
- B. Government of India (1980)- “Undertakings having investment in fixed assets in plants and machinery not exceeding Rs. 15 lakhs and engaged in the manufacturing of parts of components, sub-assemblies or intermediaries and proposes to supply at least 50% of its production to one or more parent unit and such ancillary industry shall not be a subsidiary of or owned or controlled by any other undertaking.”
- C. Government of India (2000)- “Small scale undertakings are those which are engaged in manufacturing, processing or preservation of goods and in which investment in plant and machinery (original cost) does not exceed Rs. 1 crore.”
 - a) In case of enterprises engaged in the manufacturing or production of goods, as –
 - i. a micro enterprises, where the investment in plant and machinery does not exceed twenty-five lakh rupees;
 - ii. a small enterprises, where the investment in plant and machinery is more than twenty five lakh rupees but does not exceed five crore rupees; or

iii. a medium enterprise, where the investment in plant and machinery is more than five crore rupees but does not exceed ten crore rupees;

b) In the case of the enterprises engaged in providing or rendering of services, as –

i. a micro enterprise, where the investment in equipment does not exceed ten lakh rupees;

ii. a small enterprises, where the investment in equipment is more than ten lakh rupees but does not exceed two crore rupees; or

iii. a medium enterprise, where the investment in equipment is more than two crore rupees but does not exceed five crore rupees.

Meaning of small scale industries

Small scale sector plays an important role in the development of every country. In a developing country like India this sector is indispensable. Since independence small scale units have made significant progress. After agriculture small scale sector provides highest employment to the labour force. Since small units are widely dispersed, they provide jobs to local residents.

In the sphere of production this sector provides a major share in the industrial production of the country. Large scale units are also dependent on small units for various needs. Ancillary units which are very important for big units are mostly in small sector. Government of India also encourages the development of small units through industrial and financial policies.

The basis of distinction between large-scale and small scale industries is generally the scale of operations, i.e. the size, capital investment and the number of persons employed in the industrial unit. The main Criteria used for this distinction is of capital investment.

All industrial units with a capital investment of not more than Rs. one crore (since February 17, 1999) in plant and machinery are treated as small-scale units. As per this classification all industries with capital investment higher than specified for small-scale units are large scale industries.

Types of SSI

The available small scale Industries of manufacturing sector or the service sector in India are mainly divided into five types.

1. Manufacturing Industries:- The industries that are liable for producing articles for processing called as manufacturing industries are popular examples of this category are power looms, khadi industries, engineering industries, processing industries, coin industries etc.

2. Ancillary Industries :- This industry is liable for producing small to bigger parts of every component that are used to render services in big industries.

3. Service Industries :- The well-known service sector is known for covering all light repair shops that are essential to maintain all types of mechanical equipments. This industry is also known for the complete dependency on machines.

4. Feeder Industries :- The well-known service sector is known for covering all light repair shops that are essential to maintain all types of mechanical equipments. This industry is also known for the complete dependency on machines.

5. Mining or Quarries :- The demand of minerals, different types of stones is increasing in the global market and so many mining projects are carried out just to meet the requirement of the masses. Today we can see many finding are in the process just in hunt of finding the right location for mining. Just because of increasing awareness on the issue of the environmental impact of these units they have been reduced in trying to improve safety

Challenges of small scale industries

Small scale industries play a vital role in the economic development of our country. But small scale industries are not in a position to play their role effectively due to various constraints, and also various challenges faced by small scale industries.

1. Finance:- Finance is one of the most important challenge to small scale industries. Finance is the life blood of an organization and no organization can function properly in the absence of adequate funds. The scarcity of capital and inadequate availability of credit facilities are the major causes of this factor also entrepreneurs due to weak economic base, have lower credit worthiness. Neither they are having their own resources nor are others prepared to lend them. Compared to MNCs.

2. Raw Material :- Small scale industries normally tap local sources for meeting raw material requirements. These units have to face numerous challenges like availability of inadequate quantity, poor quality and even supply of raw material is not on regular basis. All these factors adversely affect to functioning of these units.

3. Marketing :- These small scale units are also exposed to marketing challenge. They are not in a position to get first hand, information about the market i.e. about the competition. Taste, likes and dislikes of the consumers and prevalent fashion, they are producing less of inferior quality and that too at higher costs.

4. Under Utilization of Capacity :- Most of small scale units are working below full potential or there is gross under utilization of capacities. Large scale units are working for 24 hours a day. i.e. but small scale units are making only 40 to 50 percent use of their installed capacities. Various reason attributed to this gross under-utilization of capacities are problem of finance, raw material, power and under developed markets for their products.

5. Skilled Manpower :- A small scale unit located in a remote backward area may not have problem with respect to unskilled workers but skilled workers are not available there. The reason is firstly, skilled workers may be reluctant to work in these areas and secondly, the enterprise may not afford to pay the wages and other facilities demanded by these workers as compared to MNCs.

6. Project Planning :- Small scale entrepreneurs are poor project planners. These entrepreneurs do not attach much significance to viability out of mere enthusiasm and excitement. Project feasibility analysis covering all these aspects in addition to technical and financial viability of the projects, is not at all given due weight age. Moreover, due to limited financial resources they cannot afford to avail services of project consultants. This result in poor projects planning and execution.

7. Infrastructure:- Most of the small units and industrial estates found in towns and cities are having one or more problems like lack of power supply, water and drain age problem, poor roads, raw materials and marketing problem. Thus absence of adequate infrastructure adversely affect the quality, quantity and production schedule of the enterprises which ultimately results in under utilization of capacity.

8. Other Challenges :- Small scale units have been of constrained by a number of other challenges also. Managerial inadequacies old and orthodox designs.High degree of obsolescence and huge number of bogus concerns.

Objectives Of The Study

The main objectives of the study are:

1. The primary objectives of the study is to evaluate critically the contribution made by small scale industries to balance challenges of the economic development in backward areas both rural and urban areas.
2. To analyse the challenges of the registered small scale industries at Erode district.
3. To provide suggestions for the improvement of SSI.

Research Design

This study aims to understand the challenges faced by the small scale industries. Primary data for the study was collected by means of questionnaire in Erode district. Secondary data were collected from magazines, journals & websites etc. A total of 50 questionnaires were distributed out of which 50 responses were solicited for analysis purpose. Convenience sampling technique was adopted to select sample of respondents .The statistical technique used for analysing the data are simple percentage and ANOVA.In order to know about the validity of the data collection and to test the questionnaire pilot study is conducted with 30 respondents.

Analysis and Interpretation

The data collected through the well structured questionnaire are analyzed and interpretations made on the basis of such analysis are represented as below:

Table No:1 Demographic Factors

PROFILE	GROUP	FREQUENC Y	PERCENT AGE
Nature of business activity	Production	24	48
	Processing	17	34
	Job work	9	18
Age of your SSI unit	Less than 5 years	15	30
	5 – 10 years	22	44
	More than 10 years	13	26
Nature of your organization	Proprietorship	28	56
	Partnership	18	36
	Company	4	8
Capital you have invested in your company	20 lakhs	17	34
	25 lakhs	22	44
	30 lakhs	11	22
Area of industry	Urban	22	44
	Semi – urban	15	30
	Rural	13	26
Annual turnover	Less than 5 lakhs	12	24
	5 – 25 lakhs	25	50
	More than 25 lakhs	13	26
Annual profit	Less than 5 lakhs	22	44
	5 – 25 lakhs	22	44

	More than 25 lakhs	6	12
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(Source: Primary data)

From table no:1 it is inferred that majority of the SSI units were engaged in production and have an experience of 5-10 years. The sole proprietorship form of organisation was popular. Majority of the units were located in urban area with a capital investment of 25 lakhs. The annual turnover of most of them was 5-25 lakhs with a profit ranging from less than 5 lakhs to 25 lakhs.

Table No:2

Comparison of challenges scores among selected industry related variables

Variable	Group	Challenges score			F value	Table value	Sig
		Mean	Sd	No			
Nature of business activity	Production	92.50	4.82	24	.315	3.195	Ns
	Processing	92.35	5.94	17			
	Job work	90.89	5.49	9			
Age of your SSI unit	Less than 5 years	91.33	6.37	15	.280	3.195	Ns
	5-10 years	92.36	4.53	22			
	More than 10 years	92.77	5.34	13			
Nature of your organization	Proprietorship	92.50	5.39	28	.782	3.195	Ns
	Partnership	92.33	5.06	18			
	Company	89.00	5.60	4			
Capital you have invested in your company	20 lakhs	89.65	6.07	17	3.813	3.195	*
	25 lakhs	92.82	4.64	22			
	30 lakhs	94.73	3.55	11			
Area of industry(business) is located	Urban	93.32	4.67	22	1.073	3.195	Ns
	Semi-urban	90.80	5.94	15			
	Rural	91.77	5.36	13			
Annual turnover	Less than 5 lakhs	90.75	6.78	12	1.543	3.195	Ns
	5-25 lakhs	91.76	5.09	25			
	More than 25 lakhs	94.23	3.47	13			
Annual profit	Less than 5 lakhs	91.95	5.46	22	.207	3.195	Ns
	5-25 lakhs	92.64	5.58	22			
	More than 25 lakhs	91.17	3.66	6			

Ns – Not significant * - Significant at 5% level

Ho: There is no significant difference between industry related variables and challenges score.

II. RESULTS:

F - test is used to find out the significant difference between challenges score and demographic factors such as nature of business activity, age of SSI unit, nature of organization, capital invested, area of industry, annual turnover and annual profit.

There is a significant difference between capital invested in the company and challenges faced by SSI sector at 5% level. Other demographic factors do not vary with the challenges faced by small scale industry units.

Findings

- Majority 48% of the respondents are nature of business activity is production.
- Nearly 44% of the respondents age of small scale industries are five to ten years.
- The 56% of the respondents are organized by proprietorship.
- Majority 44% of the respondents are capital invested in above 25lakhs.
- Majority 44% of the respondents area located in urban area.
- 50% of the respondents turnover is five lakhs to 25 lakhs.
- Most of the respondents annual profit is less than 25 lakhs.

III. RECOMMENDATIONS

- Unnecessary loss suffered by the company due toirregular and inadequate power supply can be overcome by providing uninterrupted and sufficient power supply. The state government should pay more attention to provide better power supply and also at a cheaper rate.
- Taxes and other charges levied by the government should be revised in order to relieve the company from the burden of heavy taxes and other related legal charged.

- The government should formulate policies and regulations for manufacturing units especially in respect of marketing strategy and raw material procurement. This would enable the industry to have freedom to penetrate into any market and also avail raw material as per the convenience of the manufactures.

IV. CONCLUSION

SSI has emerged as a dynamic and vibrant sector of the economy. At the national level, this sector has performed extremely well and enables our country to attain industrial amplification and diversification to increase in employment and production but the major challenges faced by SSI are industrial sickness, non-availability of concessional loans, technological up gradation, delayed payments which are dearly seen through the reduction of their overall performance. This step helps to enhance the foreign exchange reserve of Indian economy. The government is doing various efforts to make things simple and provides financial support to interested individuals. The government should channelize the skills and talents of people into business ideas which can be transformed into reality with small capital investment with less formalities to start a small business.

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