

Functional Challenges of the Small Scale Industries - An Analytical Approach

Dr. Chandra Prabha Bohra,

Assistant Professor,
K. C. Das Commerce College,
Chatribari, Guwahati, Assam, India.

ABSTRACT

Small Scale Industries (SSIs) plays a gigantic role in the structure of the Indian economy. The development of small scale industries is an integral part of the overall economic, social and industrial development of any country. The small scale sector has emerged over the years as a vibrant and dynamic sector of the economy. It accounts for nearly 40 percent of the gross value of output of the manufacturing sector and over 40 percent of the total exports in the country. The development of small scale industries is hampered by a variety of problems throughout the country. There are certain problems common to all types of small scale business units which can be summed up as functional and other problems. The current paper is an attempt to identify the functional and other problems, if any is faced by SSIs and the extent to which these challenges are weighing down the advancement of Small Scale Industries. The paper is mainly based on the primary data collected through the field survey. The study tries to find out the major challenges faced by SSIs and rank them using Garrett's Ranking Technique.

Keywords: Small Scale Industries, Functional Challenges, Manufacturing and Service Enterprises, MSMED (Amendment) Bill, 2015.

INTRODUCTION:

Small Scale Sector has come to be recognised as a vital and dynamic sector of the Indian economy in recent times. This sector plays a gigantic role in the structure of the Indian economy. The development of small scale industries is an integral part of the overall economic, social and industrial development of any country. Small scale industries occupy a predominant place in the industrial economy of the world. Small enterprises are able to rapidly respond to changes in the economic environment and operate with lower capital investments. It generates production at low capital cost, utilizes local raw materials, exploits indigenous skills, widens entrepreneurial base, facilitate balanced regional growth. Small scale industries also prevent the migration of labour to other cities. These industries are more labour intensive and thereby offer employment opportunities to lacs of individuals who cannot be fully absorbed in large scale sectors. It plays a key role in the development of the economy with their efficient, effective, flexible and innovative spirit. This sector has over the years developed as an important component of Indian economy in terms of its share in employment, output and exports. Small scale industries are widespread in many countries, depending on the economic system in operation. Both the developed and developing countries have continued to persuade and support the development of small scale industries as a part of the strategy for overall economic development. In the developed countries, where the large scale sector has proved successful, the small scale sector continues to occupy a significant place in terms of number of units, employment, production of variety of output and reduction in the concentration of capital, control and power.

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for nearly 40 percent of the gross value of output of the manufacturing sector and over 40 percent of the total exports in the country.

As per Micro, Small and Medium Enterprises Development (Amendment) Bill, 2015, the investment limit prescribed for Small Scale Industries (SSIs) in the country, is proposed as under:

Manufacturing enterprises:

Small enterprise: Investment in plant and machinery is more than fifty lakh rupees but does not exceed ten crore rupees.

Service enterprises:

Small enterprise: Investment in equipments is more than twenty lakh rupees but does not exceed five crore rupees.

LITERATURE REVIEW:

The literature available on various functional challenges faced by SSI is very limited. A brief review of some of the existing literature is done here to get an insight into the various aspects of the topic taken up for the study.

Valasama Antyony (2002) observes that adequate and timely availability of working capital and marketing avenues for the SSI products should be ensured for improving their competitive strength in the domestic and global markets. There is the need for providing better information and efficiency networking for the SSIs besides development of quality infrastructural facilities.

Anand S and Murugaiah V (2006) examine the role and importance of small scale industries in India, the problems they are facing and the performance in terms of their contribution to the overall growth of the Indian economy. They state that Small Scale Industries (SSI) should facilitate the utilization of resources for productive purposes with minimum amount of capital investment, which in turn helps to strengthen the industrial structure of the country. SSIs have existed in India for a long time in various sectors and contributed notably in bringing down regional imbalance, generating employment opportunities, output, exports and promoting entrepreneurship in accelerating economic development. It occupies an important position in the development of India and contributes over 50 per cent of the industrial production in terms of value-addition. This sector plays a vital role in the industrialization process and accounts for one-third of exports, and employs the largest manpower in India next to agriculture.

R. Chew et al (2008) have conducted a study on the small and medium enterprises of Singapore with the objective to understand the difficulties faced by small and medium enterprises (SMEs) in a small open economy of Singapore where there is very little margin for comfort. The researcher has adopted an analytical and statistical approach for the completion of the study. Different ratios were compared over time to support the findings of the research. The study concludes that SMEs in Singapore are price-takers both in the product markets as well as in the input markets. If there is any substantial increase in costs, SMEs in Singapore will be in trouble as they cannot pass the increased costs to the buyers of their products and services.

Michael Bowen et. al. (2009) discuss that maximum number of small businesses are facing various challenges, which if not managed well could lead to business failure. Competition, insecurity, debt collection, lack of working capital etc. are the top cited challenges facing small businesses in Nairobi (Kenya). Some of the strategies which may be employed by the small businesses are good communication, discounts, credit to the customers etc. The study some factors have been highlighted the factors which contributing towards business success, important among them being disciplined financial management, competitive pricing /low cost, availability of capital, availability of credit from the banks, skilled workforce etc.

Suresh and Shashidhar (2009) highlighted the importance of small business enterprises and its role in the economic development in the era of economic reforms and observed that important contribution has been made by this sector in employment generation as well as in rural upliftment. It has also been noticed that under the changing economic scenario, the small scale sector has the opportunities to explore through cost effectiveness, improving quality of the product and diversifying the production process. However, the challenges can be confronted by enhancing competitiveness at both national and international levels. The national level competition has come basically from the large industrial sector, whereas, the international competition is to be faced from the large multinational companies.

Javed Qureshi and Gobind M. Herani (2011) try to identify the core constraints in financing of SMEs in Karachi that hold back their growth. They discover the problems and constraints which are faced by small and medium-sized enterprises (SMEs) in Karachi with regard to access to financing. The major problems which were

highlighted are collateral based lending, cumbersome and lengthy process of lending and preference to large-scale enterprises. Other barriers which hinder the growth of SMEs were identified as dearth of skilled labor and human resources, lack of management skills, lack of financial information, lack of focus on innovation etc. They concluded that most people/SMEs borrow fund for their enterprise but they using informal channels. They invest from their savings and retain earnings or borrow from family members and friends. Most of them feel reluctant to borrow from banks and financial institutions because of rigid collateral requirements, lengthy and complicated documentary process, and to some extent malpractices at banks and financial institutions.

Singh et al. (2012) analyzed the performance of small scale industry in India and focused on policy changes which have opened new opportunities for this sector. Their study concluded that SSI sector has made good progress in terms of number of SSI units, production & employment levels. The study recommended the emergence of technology development and strengthening of financial infrastructure to boost SSI and to achieve growth target.

OBJECTIVE OF THE STUDY:

The main objective of this study is to identify the functional challenges and some other challenges if any are faced by Small Scale Industries in India and at the same time to examine the extent to which these challenges are weighing down the advancement of Small Scale Industries.

METHODOLOGY:

The present paper centres on the challenges encountered by Small scale industries in India. To present a broad view of the study, data were collected from primary as well as secondary sources. Primary data has been collected with the help of structured questionnaire which was framed as per the requirement of the study. Judgemental sampling technique has been used for the purpose of selecting the respondents under this study. Total 50 (respondents) are surveyed and this constitutes the sample size. Collected data has been calculated as percentage score and the scale value is obtained by employing Scale Conversion Table given by Henry Garrett.

$$\text{Percent position} = \frac{100 (R_{ij} - 0.5)}{N_j}$$

where, R_{ij} is rank given for i th item by j th respondents
and N_j is Number of items ranked by j th respondents.

Data has been also collected from various secondary sources like journals, reports, books, internet, etc. to support the study.

FUNCTIONAL CHALLENGES FACED BY SSI:

A brief review of different functional problems faced by small scale industries which are common to all are presented hereunder:

Financial Problem:

Many of the small scale industries have to face the problem of raising sufficient start-up capital and how to attract credit facilities from financial organisations like banks. Even where these facilities are available, small scale enterprises still have to provide collateral securities generally demanded by most lending institutions/banks. Without any doubt, the problem of finance is a major one particularly to the establishment and survival of small business units.

Management Problem:

Management problems of small sale industries are different from those of large-scale industries, which are usually managed by professional managers. Owner-managers who mostly do not possess any formal training manage small-scale units. Most of them lack competence in the management of business affairs. In a typical small scale unit, a business owner takes all the decisions and carries out managerial functions by himself which may lead to delay in decision making process also.

Marketing Problem:

Marketing has a right from the start been a major problem for small businesses, although its intensity varies from enterprise to enterprise. It has been ranked as one of the most important reason for closure of small businesses all over India, as indicated by the second SSI census report. Over the years, the situation does not appear to have improved. It is expected that this may be due to increased competition in the domestic market during the last one and a half decades.

Human Resource Problem:

Finding exceptional human resource is one thing and keeping them is another. Today, employees are mobile, in part due to the existence of attractive job opportunities elsewhere. The availability of personal development opportunities also add to job mobility. Although there is not much problem in getting unskilled workmen, small businesses do not always find it easy to employ skilled, technical and managerial personnel. Though, identifying, hiring and training employees are an expensive process. More significantly, they are not able to retain them for long period of time.

OTHER CHALLENGES OF SSI:

Scarcity of raw-material:

The small scale industries often face the difficulty in procuring the essential raw materials in sufficient quantity and at economical rates. Adequate and timely accessibility of required raw materials that also at reasonable prices affects the entire operations of small business units. Because of their smallness and weak financial base and poor bargaining power, small scale business units are required to utilize the services of middlemen to acquire raw materials on credit. Such an arrangement results in higher prices of raw materials due to the high margins of the middlemen.

Infrastructural Constraints:

Infrastructural development is a pre-condition for economic development. If satisfactory infrastructural facilities are available, then more private productive investment will be encouraged and as a result simultaneous investment activities can speed up. The units face tremendous problem in bringing the raw materials and sending the finished products in the market. It is very difficult for the prospective customers to contact physically with the business units. There is an urgent need to improve the road condition all over to develop the image and accessibility of the units.

Competition:

Competition is a natural part of life as a small business. Due to globalization, the intensity of competition in the market has increased several times. The large domestic firms and MNCs have made it difficult for the SSIs to exist in the market. The surveyed units reveal that they due to high level of competition by the large business organisations they mostly operate in the local markets or in nearby states which confine their growth and profit.

Taxation Problems:

It is important for business owners to understand every tax law/policy that affect their business enterprise. Failure to do so can result in the organization being levied penalties and interest costing it a lot of money. Tax reforms have different effects on both small and large businesses. The effect of tax reform will vary among businesses of different sizes, industries, and organizational forms. Small business owner have to be very careful in understanding the tax laws related to their business size. They should take help of a good professional, wherever necessary to avoid the taxation problems

Poor Technology:

The small scale industries are highly dependent on the traditional skill of their workers. The level of technology used in these units is low. They fail to introduce advanced technology due to shortage of funds and inability of their workers to handle sophisticated technology. None of the surveyed small industry has a separate research and development wing.

Irregular Power Supply:

Lack of uninterrupted supply of electricity is also problem for the small business firms which do not have separate power supplying unit. Frequent fluctuation in power is a common problem faced by them. Majority of the units have made provision for diesel generator which create environmental problems.

DISCUSSION AND FINDINGS:

From the survey it is found that there are enormous numbers of problems/ challenges which are very commonly faced by small scale industries in India. During the field survey, an attempt has been made to find out the degree of importance of the different challenges faced by the small scale industries. Ten vital issues were identified (financial, infrastructural, marketing, human resource, competition, managerial, poor technology, power shortage, scarcity of raw materials and taxation issues) and it was requested to the respondents to assign ranks to those issues as per importance, i.e., the most vital challenge as per the consideration of the respondent is given the first rank and so on. The results so obtained were used to carry out Garrett's ranking using Scale

Conversion Table given by Henry Garrett.

The percentage score for each rank from 1 to 10 are calculated. The percentage score thus obtained for all the ten ranks are converted into scale values using Scale Conversion Table given by Henry Garrett. The scale values (x) for first rank to tenth rank are 81, 70, 63, 57, 52, 47, 42, 36, 29 and 18, respectively. The score value (fx) is calculated for each factor by multiplying the number of respondents (f) with respective scale values (x) (Vishnuvarthani and Selvaraj, 2012). The mean score is then calculated to know the order of preference given by the respondents for the factors. Based on the mean score, the overall ranks are assigned for each variable. As it is clear from Table 1, the sample respondents believe that financing is the most vital problem (mean value 63.02) followed by infrastructural problems (54.82), competition (52.02), managerial inefficiency (50.67), human resource (49.78), marketing problems(49.06), scarcity of raw materials (46.92), power supply (46.26), taxation issues (42.16), and poor technology(40.3). The ranks are clearly evident in table1 below.

Table 1: Ranking of challenges faced by SSIs as per Garrett's Method

Rank Scale Factors	I 81	II 70	III 63	IV 57	V 52	VI 47	VII 42	VIII 36	IX 29	X 18	Total	Total Score	Mean Value	Garrett's Rank
Financial Problems f fx	21 1701	5 350	5 315	3 171	2 104	3 141	5 210	1 36	3 87	2 36	50	3151	63.02	1
Marketing problems f fx	2 162	7 490	4 252	5 285	8 416	5 235	3 126	8 288	5 145	3 54	50	2553	49.06	6
Scarcity of Raw Material f fx	5 405	4 280	6 378	5 285	4 208	4 188	3 126	5 180	4 116	10 180	50	2346	46.92	7
Managerial Inefficiency f fx	5 405	6 420	7 441	7 399	5 260	3 141	2 84	2 72	7 203	6 108	50	2533	50.67	4
Poor Technology f fx	2 162	1 70	1 63	3 171	4 208	5 235	10 420	8 288	10 290	6 108	50	2015	40.3	10
Infrastructural Constraints f fx	5 405	8 560	3 189	10 570	7 364	6 282	3 126	5 180	1 29	2 36	50	2741	54.82	2
Labour/Human Resources f fx	2 162	7 490	6 378	5 285	5 260	7 329	8 336	2 72	3 87	5 90	50	2489	49.78	5
Power Supply f fx	2 162	6 420	5 315	2 114	3 156	8 376	7 294	7 292	4 116	6 108	50	2313	46.26	8
Competition f fx	5 405	4 280	8 504	5 285	6 312	5 235	3 126	110 360	2 58	2 36	50	2601	52.02	3
Problem of Taxation f fx	1 81	2 140	5 315	5 285	6 312	4 188	6 252	2 72	11 319	8 144	50	2108	42.16	9

Note: x=Scale Value, f=No. of units, fx=Score

Source: Field Survey

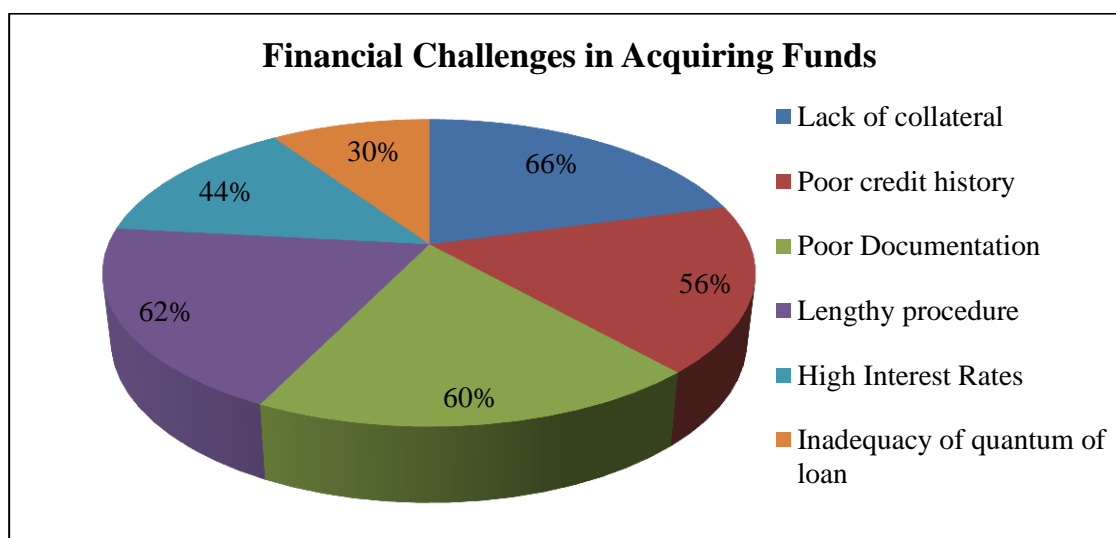
In this study it is observed that majority of respondents are facing problems in arranging funds for their business. Several challenges are faced by the small scale businesses such as lack of collateral securities (66%), lengthy procedure and a huge number of formalities are required to be done by the small businesses to get the loan (62%) followed by poor documentation (60%) and poor credit history (56%) of the businessmen also affects the business unit in acquiring loan from financial institutions and banks. This can be easily seen with the help of the following table and chart.

Table 2: Challenges Faced in Securing Loans from Financial Institutions and Banks

Sl.No.	Details of problems faced	No. of respondents	Percentage
1	Lack of collateral	33	66
2	Poor credit history	28	56
3	Poor Documentation	30	60
4	Lengthy procedure	31	62
5	High Interest Rates	22	44
6	Inadequacy of quantum of loan	15	30
Total		50	100

*Multiple response were allowed

Source: Field Survey



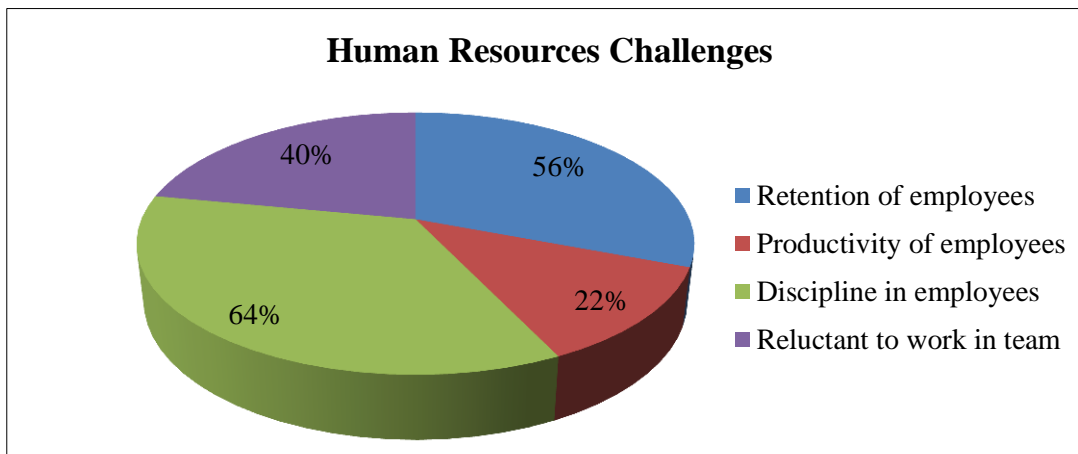
This study also found that human resource problem is also faced by the small scale industries. Retention of employees (56%) in the organisation is one of the latest problems they face, as and when employees get trained and get knowledge about the market and business, they shift to other organisations. At the same time it is also found that discipline (64%) among the employees is not satisfactory, they are not punctual and at many times they get indulged in some wrong doings which are not beneficial for the business enterprise. Business owners also mention that some of the employees are reluctant to work in team as they do not want to share their recognition with other employee which creates an unhealthy environment in the enterprise. It is depicted in the following table and chart.

Table 3: Challenges Faced in the area of Human Resource by SSI

Sl.No.	Details of problems faced	No. of respondents	Percentage
1	Retention of employees	28	56
2	Productivity of employees	11	22
3	Discipline in employees	32	64
4	Reluctant to work in team	20	40
Total		50	100

*Multiple response were allowed

Source: Field Survey



It is observed in the study that the infrastructural bottleneck is an obstacle to the development of small scale industries in country. Many industries face the problem of communication i.e. one way roads, followed by the problem of damaged roads etc. Some scale units also reported problem of sewerage as a setback for their business. Without appropriate infrastructure facility it becomes almost impossible for the business units to attract customer which negatively affect their profitability.

The study revealed that small scale industries are facing cut throat competition from large business organisations. Many respondents said that the profitability of their business gets affected because of increasing number of large scale businesses. These days people choose to visit the big business houses with the expectation of getting everything under one roof, this causes a serious obstacle on small scale units.

It is also observed that marketing of products was also found to be a problem because of unawareness about the marketing strategies which can be employed by small business units to market the products. Maximum units are still dependent only on local newspapers, local TV channels, etc., for advertising the products which restricts their growth.

SUGGESTIONS:

1. As the flow of finance from banks and financial institutions to the small scale industries is not adequate, it is suggested that banks and financial institutions should review the formalities and procedures that act as constraints in the flow of finance to small scale units. The procedures and yardsticks followed, while sanctioning the financial assistance to the small units, should be made uniform for all banks.
2. Success of an enterprise irrespective of the scale of operation depends mainly upon the competitive nature of its products, managerial efficiency and process technology. For the adoption of improved technology the government and financial institutions need to play a dynamic role by providing technical guidance and timely credit to small scale units considering limited resources of the small scale industries.
3. The gap that exists between consumers and small business must be bridged through effective marketing. Industrial fairs, exhibitions, etc. must be organised from time to time by the government and other promotional organisations to encourage the sale of small scale products.
4. Irregular power supply and its frequent fluctuation are a common problem for SSIs. Inadequate power supply forces the units to resort to old technology which compromises with the product quality and creates environmental issues. Without appropriate infrastructure facility and power supply the prosperity of small scale industries is not possible.

CONCLUSION:

In conclusion, the purpose of this research is to understand the functional and other challenges faced by small scale industries in the country. These industries do not require heavy investment, no long gestation period and is generally environment friendly and are very important for the economic and social development of any country but the challenges they are facing are numerous which hinder their growth and development. The sector requires more attention from the government organisations working in the field of SSI. The development and prosperity of this sector is highly dependent on more credit support from banks and financial institutions, infrastructural development, well formulated managerial and marketing strategies, advanced technology, etc., to meet up the challenges and excel in highly competitive market.

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