

# UNIT-5 SMALL SCALE INDUSTRY (SSI)

## MEANING AND DEFINITION OF SMALL SCALE INDUSTRY

The definition of small scale industry varies from one country to another and from one time to another in the same country depending upon the pattern and stage of development, government policy and administrative set up of the particular country.

*An industrial undertaking in which the investment is fixed assets in plant and machinery, whether held on ownership terms or on lease or by higher purchase, does not exceed Rs 100 Lakh is treated to be a Small Scale Industry.*

## ● CHARACTERISTICS OF SSI

- (1) A small unit is generally a one-man show. Even if SSI is run on partnership or company, the activities are carried by one of the partners or directors; the others are as sleeping partners.
- (2) In case of SSI, the owner himself or herself is a manager also and hence an SSI is managed in a personalized fashion. The owner takes effective participation in all matters of business decision making.
- (3) The scope of operation of SSI is generally localized, catering to the local and regional demands.
- (4) The gestation period i.e., the period after which return on investment starts is relatively lower when compared to large units.
- (5) SSI's are fairly labour intensive with comparatively smaller capital investment.
- (6) Small units use indigenous resources and therefore, can be located anywhere subject to the availability of these resources like raw materials, labour etc.
- (7) Using local resources Small Units are decentralized and dispersed to rural areas. Thus small units promote balanced regional development and prevent the influx of job seekers from rural areas to cities.
- (8) Small scale units are more change susceptible and highly reactive and receptive to socio-economic conditions. They are more flexible to adopt changes like introduction of new products, new method of production, new materials, new markets and new form of organization etc.

## ● OBJECTIVES

1. To generate immediate and large scale employment opportunities with relatively low investment.
2. To eradicate unemployment problem from the country.
3. To encourage dispersal of industries to all over country covering small towns, villages and economically lagging regions.
4. To bring backward areas too, in the main stream of national development.
5. To promote balanced regional development in the whole country.
6. To ensure more equitable distribution of national income.
7. To encourage effective mobilization of country's untapped resources.
8. To improve the standard of living of people in the country

# ● SCOPE

- Manufacturing activities
- Servicing/repairing activities
- Retailing activities
- Financial activities
- Whole-sale business
- Construction activities



## **ROLE OF SSI IN ECONOMIC DEVELOPMENT**

- 1. Employment** SSI use labour intensive techniques and therefore provide employment on a large scale, SSI accounts for 75% of the total employment in the industrial sector.
- 2. Optimization of Capital** SSI requires less capital per unit of output and provides quick returns on investment due to shorter gestation period.
- 3. Balanced Regional Development** SSI promotes decentralized development of industries. They help to remove regional disparities by industrializing rural and backward areas.
- 4. Mobilization of Local Resources** SSI helps to mobilize and utilize local resources like small saving, ntreprenneurial talent etc. which might otherwise remain idle and unutilized.

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5. **Export Promotion** SSI helps in reducing pressure on the country's balance of payments in two ways. First they do not require imports of sophisticated machinery or raw materials. Secondly, SSI can earn valuable foreign exchange through exports.
6. **Consumer Surplus** SSI now produces a wide range of mass conception items. Over 5000 products are being manufactured in small scale sector.
7. **Feeder to Large Scale Industries** SSI plays a complementary role to large scale sector.
8. **Social Advantage** Small scale sector contributes towards the development of a socialistic pattern of society by reducing concentration of income and wealth.
9. **Share in Industrial Production** SSI contributes more than one-half of the total industrial production in India. About 5000 products are manufactured in the small scale sector.
10. **Development of Entrepreneurship** Small scale units have helped to develop a class of entrepreneur. These units facilitate self-employment and spirit of self-reliance in the society.

# ADVANTAGES OF SMALL SCALE INDUSTRIES

- Small scale enterprises can be started as per convenience of the owner in terms of space, finance, product and manpower.
- The setting up of the unit and starting of production requires a small gestation period of only 2 to 6 months and layout can be made as per convenience.
- Locally available skilled and semi-skilled people can be appointed at short notice and at a much lower wages compared to the medium and large industries. Wherever high technology involved the parent company executives will help. Alternatively, consultants can be hired to sort out technology related problems.
- It is one of the best forms of self-employment as well as giving employment opportunities to own kith and kin, friends and relatives etc.

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- In case of rural sector the SSI units will be able to have cheaper labour especially in off seasons.
- In developing countries the SSI units are a necessity to assist bigger industries and new projects. Thus they not only contribute to the economy of the nation but also create employment opportunities to people around the project sites.
- In case of SSI units started by experienced and talented executives, there is abundant scope to develop high technology components for MNCs and also to organize exports.
- Due to increase in population there has been increase in production of consumer goods and Fast Moving Consumer Goods (FMCG). In view of this there is a bigger role for small industries to take up components production and even manufacture the product itself.
- The small units are exempted from excise duty up to 75 lakhs per annum turnover. In case of industries in the backward districts, waiver or concession is given for various statutory taxes. Thus lot of paper work and formalities are avoided.
- Since employees are recruited based on contacts or relations there will be loyalty to the owner and hence there will be no trade union activity.



# STEPS TO START AN SSIS

1. ***Decision to be self-employed:*** This is the most crucial decision a youth has to take, shunning wage employment and opting for self-employment or entrepreneurship.
2. ***Analyzing strengths, weaknesses, opportunities and threats (SWOT analysis):*** The potential entrepreneur has to analyze his strengths, weaknesses, opportunities and threats, while deciding to go for entrepreneur career.
3. ***Scanning of business environment:*** It is always essential on the part of the entrepreneur to study and understand the prevailing business environment. In order to ensure success of his enterprise, entrepreneur should scan the business opportunities and threats in the environment.
4. ***Training:*** Before going to start the enterprise, the potential entrepreneur must assess his own deficiencies which he can compensate through training.
5. ***Product selection:*** The most important step is to decide what business to venture into, the product or range of products that shall be selected for manufacture and in what quantity.
6. ***Market survey:*** It is always convenient to manufacture an item but difficult to sell. So it is rational on the part of the entrepreneur to survey the market thoroughly before embarking upon production.

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7. **Form of organization:** A firm can be constituted as proprietorship, partnership, limited company (public/private), cooperative society, etc.
8. **Location:** The next step will be to decide the location where the unit is to be established.
9. **Technology:** To manufacture any item, technology is used. Information on all available technologies should be collected by the entrepreneur and the most suitable one to be identified.
10. **Machinery and equipment:** Having chosen the technology, the machinery and equipment required for manufacturing the chosen products have to be decided, suppliers have to be identified and their costs have to be estimated.
11. **Project report preparation:** After deciding the form of the ownership, location, technology, machinery and equipment, the entrepreneur should be ready to prepare his project report or the feasibility study.
12. **Project appraisal:** Ordinarily, project appraisal implies the assessment of a project. It is a technique for ex-ante analysis of a scheme or project. the following appraisals can be performed at the preliminary level:
  - (a) Economical appraisal
  - (b) Financial appraisal
  - (c) Technical appraisal
  - (d) Management appraisal
  - (e) Organizational appraisal
  - (f) Operational appraisal
  - (g) Market appraisal

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13. ***Finance:*** Finance is the lifeblood of the enterprise. Entrepreneur has to take certain steps and follow specified norms of the financial institutions and banks to obtain it.
14. ***Provisional registration:*** It is always worthwhile to get the unit registered with the government.
15. ***Technical know-how:*** In some cases, technical know-how may be arranged for setting up enterprise.
16. ***Power and water connection:*** The sites, where the enterprise will be located, should either have adequate power connections or this should be arranged.
17. ***Installation of machinery:*** Having completed the above formalities, the next step is to procure the machinery for installation. Machinery should preferably be installed as per the plan layout.
18. ***Recruitment of manpower:*** Once machines are installed, the need for manpower arises to run them. So the quantum and type of manpower is to be decided.
19. ***Procurement of raw materials:*** Raw materials are the important ingredients for running an enterprise.

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20. ***Production:*** The unit established should have an organizational set-up.
21. ***Marketing:*** Marketing is the most important activity as far as the entrepreneurial development is concerned.
22. ***Quality assurance:*** Before marketing, the product quality certification from BIS (Bureau of Indian Standards)/AGMARK/HALLMARK, etc., should be obtained depending upon the product.
23. ***Permanent registration:*** After the small scale unit goes into production and marketing, it becomes eligible to get permanent registration based on its provisional registration from DIC or Directorate of Industries.
24. ***Market research:*** Once the product or service is introduced in the market, there is strong need for continuous market research to assess needs and areas for modification, up gradation and growth.



## **GOVERNMENT POLICY: INDUSTRIAL POLICY RESOLUTIONS**

### **Major Environment :**

After attaining independence in 1947, India adopted economic planning as a method to achieve economic development.

### **IPR 1948 :**

The industrial sector in 1948 was not different from the one existing in pre-1947 days and hence the SSI sector meant mainly rural industrial units, small job-cum-repair shops, units making agricultural implements, a few urban small units and handloom units weaving clothe.

### **IPR 1956:**

The second IPR was announced against the background of a bolder Second Five Year Plan, with a long term strategy for industrial and economic development.

### **IPR 1977:**

The next IPR was announced after a lapse of two decades. During the preceding decades, two major problems had been witnessed.

### **IPR 1980 :**

This IPR re-emphasized the spirit of the IPR 1956 with its strategy of large scale, high technology and heavy investment based key or basic industry. Nevertheless, the SSI sector remained as perhaps the best sector for generating wage and self-employment based opportunities in India.

### **IPR 1990:**

This IPR was announced during June 1990. Its basic aim is to introduce measures of economic liberalization and simplified rules and procedures with a view to enhancing the technological base of industry and accomplishing higher levels of output

## GOVERNMENT SUPPORT TO SSI DURING FIVE YEAR PLAN

Immediately after independence, government of India has given great importance to the development of small-scale sector in the successive five year plans.

**First Plan:** In the first Five Year Plan Rs. 48 crores (constituting 47.8% of total plan expenditure on industry) was spent on small-scale sector alone. During this plan six boards were constituted namely All India Handloom Board, All India Handicraft Board, All India Khadi and Village Industry Board, Small-Scale Industries Board, Coir Board and Central Silk Board. The Boards were established to cover the entire field of small-scale and cottage industries.

**Second Plan:** As per the recommendations of Karve Committee, the second Five Year Plan focused on dispersal of industries. During this plan 60 industrial estates were established for providing basic facilities like water, power, transport etc. at one place.

**Third Plan:** The third Plan focused on extension of coverage of small scale industries. During this plan Rs. 248 crores were spent.

**Fourth Plan:** The programmes adopted during the third plan were extended during fourth plan also. As a result, small-sector witnessed significant diversification and expansion during the fourth plan period, during which 346 industrial estates had been completed and small-scale sector provided employment to almost 82,700 persons.

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***Fifth Plan:*** The main thrust of the fifth plan was to develop small-scale industries to remove poverty and inequality stacking the land. During this plan the expenditure incurred is Rs. 592 crores.

***Sixth Plan:*** Because of the massive development programmes initiated for the development of promising small-scale sector, the actual expenditure of Rs. 1945 crores surpassed the plan 836 items were reserved for manufacturing in small-scale industries and reserved 409 items for exclusive purchase from small scale industries.

***Seventh Plan:*** The main thrust of this plan was upgradation of technology to increase competitiveness of small sector. The new watch word was “competition” and “not reservation”.

***Eighth Plan:*** The main thrust of the eighth plan was the employment generation as the motive force for economic growth. To achieve this, small and village industries have been assigned an extremely important role.



## IMPACT OF GLOBALIZATION AND LIBERALIZATION ON SSI

- (1) The new policies of the government towards liberalization and globalization sector.
- (2) The problems of SSI in liberalized environment have become multidimensional delay in implementation of project, inadequate availability of finance and credit, marketing problems, cheap and low quality products, technological obsolescence, lack of infrastructural facilities, deficient managerial and technical skills, to name some.
- (3) Globalization resulted in opening up of markets, leading to intense competition. For example, the World Trade Organization (WTO) regulates multilateral trade, requiring its member countries to remove its import quotas, restrictions and reduce import tariffs.
- (4) With the removal of restrictions of foreign direct investment, multinational companies entered India which further intensified the competition in the domestic market.

The promotional measures cover the following:

- Industrial extension services
- Institutional support in respect of credit facilities
- Provision of developed sites for construction of sheds
- Provision of training facilities
- Supply of machinery on hire purchase terms
- Assistance for domestic marketing as well as exports
- Special intensive for setting up enterprises in backward areas
- Technical consultancy and financial assistance for technological up gradation.



# IMPACT OF WTO/GATT ON SSI

The challenges to the small-scale sector are due to the impact of agreements under WTO. The setting up of the WTO in 1995 has altered the framework of international trade towards non-distortive, market oriented policies. This is in keeping with the policy shift that occurred worldwide in favor of the free market forces and tilt away from state regulation/intervention in economic activity. This is likely to lead to an expansion in the volume of international trade and changes in the pattern of commodity flows. The main outcome of WTO stipulated requirements will be brought about through reduction in export subsidies, greater market access, removal of non-tariff barriers and reduction in tariffs.

There will also be tighter patent laws through regulation of intellectual property rights under Trade-Related Intellectual Property Rights (TRIPS) Agreements, which laid down what is to be patented, for what duration and on what terms.

## **AGENCIES OF GOVERNMENT FOR SSI**

The ministry of small scale industries is the administrative ministry in the Government of India for all matters relating to small scale and village industries which designs and implements policies and programmes for promotion and growth of small industries. The Department of small-scale industries was created in 1991, in the Ministry of Industry to exclusively formulate the policy framework for promoting and developing small-scale industries in the country.

The institutional network can be broadly classified as under.

- (1) Central level institutions/agencies
- (2) State level institutions/agencies
- (3) Other agencies

## **ANCILLARY, TINY AND SERVICE INDUSTRIES**

An ancillary unit is one, which sells not less than 50 % of its manufactures to one or more industrial units. The limit of investment is same for ancillary units and smallscale

- industries.