

CHANGING SCENARIO OF SMALL SCALE UNITS IN THE GLOBALIZATION ERA

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Abstract

Changing on Scenario of Small Scale Units in the Globalization Era Rapid economic development has been the primary objective of independent India. It has been pursued through industrialization, especially the development of basic and heavy industries within the ideological framework of a 'socialist pattern of society' stressing equitable distribution. In order to ensure equitable distribution, the state, as the principal agency acting on behalf of society as a whole, assumed direct responsibility for the development of industry. The states direct involvement in the development of industry resulted in the formation of a dominant public sector and heavily regulated private sector. To enable the government to control the course of industrial development public utilities and industries that were essential but quality coupled with existing income inequalities segmented the product market into two parts: price-sensitive and quality-insensitive segment and price-insensitive and quality-sensitive segment. Lower-income households and the government constitute the former segment while the higher income households constitute the latter market segment. Small-scale industrial units, mostly being producers of lower quality but cheaper products, cater mainly to the price-sensitive and quality-insensitive market segment/. Product market segmentation exists in India for numerous consumer items such as water heaters, washing machines, pressure cookers, tape recorders, sewing machines, garments and footwear. Underdevelopment of infrastructure like transport created sheltered local markets for small-scale units. The only competition these units have so far faced is competition with each other due to the overcrowding. The business environment has, however, changed drastically since the 1990s due to new economic policies. The radical shift in the Indian economic policies partly occurred due to its own macroeconomic crisis and partly as a consequence of the global fiend.

Key words: Business Environment, Sick Units, Private Sector, Product Market, Delicensing, Import Restrictions

Introduction

The small scale industry occupies an important sector in India's economy and accounts for 50 percent of industrial production in the county and 80 percent of the employment in the industrial sector. It accounts for about 35 percent of India's export earnings by way of different products' The SSI sector, manufacturers a wide range of more than 7500 products. It not only caters to the needs of lower income groups but also acts as a nursery for the development of entrepreneurial talent. It producers and consumption items such as leather goods plastic parts, ready-made garments, T.V. sets etc.

The growth of SSI sector in the overall industrial sector in the past eight years on an average is 8-9 percent while in industrial sector it is 67 percent. It has been estimated that a lakh rupee of investment in fixed assets produces Rs.4.62 lakh worth of goods and services and also generates employment off our persons. Per unit employment is also estimated at 6.3 persons. Keeping in view the significant performance of small scale sector in terms of number of units, output, employment and exports, Government of India has

earmarked a growth rate of 12 percent in small scale sector in the 10th plan period whereas the overall growth rate of the economy is 8 percent. The targets earmarked for SSI sector during 10th plan period in terms of number of units, output and employment would be 43.78 lakh, Rs.14, 01,939 crores as current prices and 237.17 lakh persons respectively i.e., growth rate of 29.9 percent, 13.8 percent and 2.8 percent respectively. To achieve these targets planning commission has approved an outlay of Rs.1, 97,500 lakhs to SSI sector in 10th plan period. Since the announcement of Industrial Policy Resolution of 1948 and 1956 and more so since the pronouncement of 1977 Industrial Policy Statement, the small scale industries have thrived under protected environment. However, with the introduction of economic reforms and the WTO agreements many of the existing support structures would vanish and SSIs have to struggle for their existence against the well established formidable giant MNCs. Due to their inherent weaknesses such as obsolete technology, uncompetitive prices, poor quality of goods, costly credit, weak infrastructure facilities and lack of standards conforming to international standards etc. With WTO conditionalities and removal of quantitative restrictions, SSIs are subjected to intense foreign competition especially from its neighbour China as well as other developing countries. It is against this background an attempt is made in this paper to examine the following objectives:

Objectives

1. To study the ongoing changes in the business environment of the small scale sector.
2. To study the problems afflicting the SSI and the sickness associated with it.
3. The impact of WTO on Small Scale Sector and
4. To offer suitable policy options for the rapid development of the small Scale Units.

Changes in Business Environment

Rapid economic development has been the primary objective of independent India. It has been pursued through industrialization, especially the development of basic and heavy industries within the ideological framework of a 'socialist pattern of society' stressing equitable distribution. In order to ensure equitable distribution, the state, as the principal agency acting on behalf of society as a whole, assumed direct responsibility for the development of industry. The state's direct involvement in the development of industry resulted in the formation of a dominant public sector and heavily regulated private sector. To enable the government to control the course of industrial development public utilities and industries that were essential but quality coupled with existing income inequalities segmented the product market into two parts: price-sensitive and quality-insensitive segment and price-insensitive and quality-sensitive segment. Lower-income households and the government constitute the former segment while the higher income households constitute the latter market segment. Small-scale industrial units, mostly being producers of lower quality but cheaper products, cater mainly to the price-sensitive and

quality-insensitive market segment/. Product market segmentation exists in India for numerous consumer items such as water heaters, washing machines, pressure cookers, tape recorders, sewing machines, garments and footwear. Underdevelopment of infrastructure like transport created sheltered local markets for small-scale units. The only competition these units have so far faced is competition with each other due to the overcrowding. The business environment has, however, changed drastically since the 1990s due to new economic policies. The radical shift in the Indian economic policies partly occurred due to its own macroeconomic crisis and partly as a consequence of the global fiend.

The world over, the business environment has been changing fast. Three features of this change are of critical importance to industrial units. First, there has been a shift, during the past two decades in the economic policies of nations, especially developing nations from 'policy regulation' to 'market orientation' exposing their industrial units to greater market competition. Second, globalization in the sense of increasing integration of world economics is taking place, resulting in intensifying the market competition. Thirdly, the past few decades have experienced rapid technological developments in numerous areas. All these developments have changed the methods of doing business drastically.

The remarkable shift in the economic policies of many developing nations from 'state intervention' towards 'market orientation' was apparent from the early 1980s. In India a major reform process has been under way since July 1991 to liberalize the regulations on domestic economic transactions. Some of these reforms are the abolition of licensing requirements for investments for a majority of industries, opening of hitherto reserved areas of public sector to the private sector' reduction in price controls, and reforms in capital markets All these policy reforms are taking away the closed and assured markets of Indian Industry' Though the reforms are yet to touch the polices directly relating to the small-scale sector' new economic policies have already exposed this sector to market competition indirectly. For example, overall reduction in excise duties has automatically reduced the major benefit of the small-scale units, i.e., excise duty exemption. Finance sector reforms have squeezed the benefits of lower interest rates, credit guarantee schemes and priority sector lending. Delicensing along with the reduction in price controls has taken away the special advantage of obtaining scarce raw materials at nominal prices. Feeling the pressure of competition, large-scale units are trying to expand their markets by getting into the lower end as well as rural segments of the product market for many consumer goods and thus opening the sheltered markets of small-scale units created by the product and geographical market segmentation.

Globalization whether taken in a limited way in terms of 'multilateral trade liberalization' or in the broader sense of 'increasing internationalization of production, distribution and marketing of goods and services' has resulted in the opening up of the markets leading to intense competition. For example, the world trade organization (WTO)

regulates multilateral trade requiring its member countries to remove import quotas and other import restrictions and to reduce import tariffs. In addition, countries, especially the developing countries, are asked to stop subsidies to exports as well as to domestic goods. Time limits are prescribed and strictly enforced by WTO in all these respects.

Problems Afflicting Tite SSI Sector Internal and External Causes

The problem of Small Scale Units are broadly classified into internal and external causes. The internal causes are mainly at the unit level due to lack of product management, some of them are inadequate technical know-how, locational disadvantage, improper layout, Outdated production process, obsolete machinery, high cost of inputs, defective pricing policy, weak market organization, lack of market feedback and market research, poor sales promotional techniques, unimpressive brand and packaging, poor equity base, siphoning away of funds, overtrading, adverse debt equity ratio heavy inventory build up, poor collection policy, over centralization, lack of professionalism, poor industrial relations etc. These problems make the unit gradually sick and turn the corner economically non-viable.

Extremal problems are those which are beyond the control of men managing the units. Such causes are infrastructural bottlenecks, non availability of critical raw materials, power shortage, Government controls and polices, fiscal duties, procedural delays in sanctioning licenses etc. inflationary and recessionary trends in the economy, lack of co-ordination among agencies responsible for the growth of the sector, natural calamities, wars, sympathetic strikes and so on. Thus the problems of small scale industry is manifestations of several maladies in the working of the units. They can be classified into production, marketing, finance and personnel management, governmental policies and defective evaluation of project profile.

Management

Management is the basic input required for making the unit a successful one. Quite often it happens that there is a likelihood of disputes amongst the partners. A complex business situation requires the dynamic leadership coupled with sharp business intelligence on the part of the leader of the enterprise. In the case of Small Scale industries the strength of dynamic leadership appears to be very low in many cases. The owner/manager fails to analyze the strength and weakness of his organization. The result is that he is not well prepared to face the problem. Besides, the unsuccessful entrepreneur tends to lose confidence in the business resulting low morale while dealing with the employees in the organization.

Though small firms possess the frame work for centralized control quick decision-making and prompt implementation yet. The small entrepreneur in general find it difficult

to cash these advantages because he is either a production oriented engineer or sales oriented merchant. He has no time to manage other managerial functions. Further, the new entrepreneurs who have come forward to start small scale units do not have adequate experience in the field. They also do not possess the required perception and skill to run the units successfully. Most of the times they run the units on trial and error method. These units are dogged by financial illiteracy. Sickness in a unit is co-extensive with the individual managing it. It is because most of the small units are setup by sole proprietors who have poor/no managerial skill.

Production

Perhaps the predominant factor that influences the industrial sickness is the non-availability of suitable machinery supplies with an obligation to supply the same on turnkey basis. The other reasons are sometimes happen to be lack of sound production planning and control system, technological obsolescence, scarcity of raw materials, improper lay-pout, high cost of inputs, government policies, lack of R&D setup etc. Because of their smallness and weak financial position small units are forced to buy on credit from middleman who keep higher profit margins. The other alternative is to go in for cheap and inferior raw materials which affects quality of the finished product. Besides, irregular Government supplies of raw materials will affect their production programmes. Therefore sometimes they have to buy in black market at prohibitive prices, which upset all their cost calculations.

Marketing

This is one of the important forces responsible for the success and growth of industrial process. The poor quality control system, uneconomic pricing, inadequate facilities of market research, inadequate funds to launch heavy advertisement campaigns, quite often result a good product however it might be not receiving its due market share. Sometimes the attitude of big business houses deliberately tend to ditch away the units and ultimately to rock out the units from the market segment through heavy advertisement and publicity, public relations media, are not ruled out. They also suffer from the problem of branding and packaging.

Financial Problems

One of the potential problems encountered by Small Units is the inadequate amongst of funds available with the organization. Quite often it is a practice that estimates at the project appraisal itself tend to be quite erratic resulting high cost escalations and eventual losses. The financial problems sometimes arise accidentally or sometimes deliberately created by the entrepreneur himself to syphon of some of the funds from this unit to another unit in which he has vested interest, making the former sick. But in the case of genuine financial problems sometimes the entrepreneur will be confronted with high

interest burden, on account of high debt-equity ratio, payable to the financial institutions/banks. Sometimes at the project execution stage unusual delay is caused due to inadequate funds for acquisition of fixed assets and so on. Perhaps all these problems do arise due to lack of proper financial planning and management. Financial management is the amalgamating force of conducting, coordinating and controlling the various activities in the business. It is simply systematized commonsense and not a pursuit of abstractions. All senior and successful businessmen apply its method and modes to carve their achievements. Every business set up for survival and growth must not gamble but plan. Planning is looking ahead into the uncertainties of future and making advance Preparation

Promotional Policies of the Government

In a way Government is mainly responsible for high incidence of sickness. The Government in the guise of reducing regional imbalances and to improve backward areas, has extended a host of concessions. Most of projects in these areas are taken up by incompetent, unemployed graduates, who do not possess any knowledge of industry/Business. The Government officials are more concerned with starting new units and achieving targets set rather than the survival of the units. Quite often many person enter the industry having been motivated by an intensive campaign by the Governmental institutions which promise them everything for almost nothing.

In Efficient Evaluation of Project Profile

Failure to prepare comprehensive financial plan is one of the main causes for sickness. The Financial institutions have financed the small scale units indiscriminately to achieve their targets either under pressure or with over enthusiasm, without an adequate evaluation of the project. Most of the times feasibility report is not prepared by the units. Even if it is prepared, it will be giving a rosy picture and prepared only to satisfy the requirements of lending institutions. Officials in charge of evaluation of project do not possess specialized skill in evaluating the project and thereby it ends up in either no finance made available or delay in finance both of which are dangerous for the health of the unit.

Sickness in Small Scale Industries

The growing incidence of sickness in large, medium and small scale industries which adversely affect the industrial production and employment has evoked serious concern all round. What is more alarming is sickness in small scale sector is increasing and good number of units lost the possibility of revival. It is clear and beyond doubt, that the treatment of sick units involves a lot of cost which falls on several parties either directly or indirectly. It is further well known that sometimes their revival may not possible and may force the closer of the units. In this connection it is right to recollect the proverb, "Prevention is better than cure" which is applicable to industries also. To undertake

preventive treatment it is necessary to find out certain symptoms which may cause sickness. As and when these symptoms appear, appropriate remedial measures may be applied to prevent the sickness, Increase in debtors without a corresponding increase in sales, long outstanding (over aged) debtors cause the locking up of funds on debtors and shows the symptoms that the firm is having some difficulties in increasing or even maintaining the same volume of sales without increase of credit to the customers. Frequent failure on the part of firm to pay the Bank loans and trade creditors within the agreed period and ever increasing balances in these accounts causing rejection or reduction of further credit or imposition of hard terms by the supplying parties is a clear indication that the firm will face severe problems coming in future - constant increase in obsoleted, inferior or inappropriate raw material, uneconomical packing and unsuitable size, shape or quality of the final product may contribute for sickness.

Increased cost of production without a corresponding increase in selling price and loss of market share with defective marketing strategy are indicators of sickness. Further high capacity may be established and the same is under utilized for a longer period. Inability or unwillingness to pay reasonable salaries to the skilled labour, diversion of funds for other than intended purposes and involvement in speculative transactions may be signals towards sickness. Ploughing back of profits and their holding as reserves and surplus acts as a cushion of safety to meet unexpected events and deficiencies in the expected events. Failure on the part of the firm to make provision out of regular earnings towards general reserves and excess withdrawals of funds from operations act as a warning signal of future financial crises' If the firm does not provide sufficient and reasonable amount of depreciation out of earned profits on its assets, in future when the assets needs replacement' accumulated balance in the depreciation fund may not be sufficient to replace the aged and outdated assets. It may force the firm to run the production with old assets which increase cost of production reducing the margin of profits to the unremunerative level'

Impact of WTO

So far SSIs have survived under protected environment, with the introduction of WTO and its conditionalities many of the existing support structures would vanish and SSIs would have to struggle on their own. SSIs would not be able to compete with MNCs due to their inherent weaknesses such as obsolete technology, uncompetitive prices, poor quality of goods, costly credit, weak infrastructure facilities, plethora of labor legislation, lack of cohesion among SSI units, ineffective associations, lack of up-to-date information, lack of international exposure to its products, lack of standards conforming to international standards, etc. With the removal of Quantitative Restrictions (QR), SSIs are subjected to foreign competition by way of cheap imports from neighboring countries as well as developing countries. Removal of QRs will affect most of the sectors in SSIs. The sectors

which are manufacturing products keeping in mind the Indian customers are likely to be less affected while those which cater to universal demands are likely to be more affected. For example, products like pencils, duty cells, stationary items, umbrellas, electronic components and goods, leather products, garments, watches, etc., are more affected whereas food items like papad, pickles, masalas, ghee, etc., are less affected'

The Economic Survey 2001-02 has inhibiting Indian industry from investing in observed that the key rigidity labour using activities that are export oriented is the continuation of small scale industry reservations. The large foreign enterprises can produce all these products whereas large enter prises in India are not permitted to manufacture these products. To increase competitiveness of SSI products a number of items connected with garments, tyres, shoes and leather goods are de-reserved. Reservation helps to bring in state-of art technology and capital, including foreign funds through joint ventures, increased competition and induces the units to improve the quality of their products thereby making the products more competitive in the international market. However, de-reservation of the products is a delicate issue that hampers the growth of the small scale sector and government needs to address the issue cautiously.

On the other side the implementation of WTO Agreements will have some favourable impact on SSIs. The removal of QRs would imply that raw materials is available at cheaper rates which all, in turn, reduce cost of a product thereby making it more competitive in terms of pricing. There is vast market potential for the products of SSIs in the neighboring countries as well as in other developing countries as removal of QRs is also applicable to these countries. SSIs should adopt an aggressive export policy towards the optimum utilization of the opportunities available by the removal of QRs. There are certain areas where MNCs would not be able to supply goods. SSI shave very good opportunities to provide such products at cheaper rates. The Government has also established sub-contracting exchanges which maintain data about the small scale industries to match the requirements of large scale industries. The small scale industries, at the same time, must ensure uniform quality and strict adherence to delivery schedules. Small scale industry will become increasingly knowledge intensive and offer many challenging opportunities in the coming years. The service sector offers most attractive possibilities to the young entrepreneurs and what is needed is the formulation of positive government policy to strengthen the growth of this sector. The Government should take measures to safeguard the interests of SSIs and to make them competitive both domestically and globally. The areas which require special focus are: technology up gradation, infrastructure assistance, enhancement of fiscal support, timely availability of credit, adoption of modern management facilities, use of electronic infrastructure and other IT applications to face the emerging challenges of trade liberalization.

Policy Options

Government should take steps to introduce labour intensive technology in the development of small scale industries so as to create greater employment opportunities in rural and backward areas.

In view of WTO Agreements there is a need to examine the definition of small Scale Industrial units in terms of employment or turnover as is prevalent in most of the countries, to have easy access in international market and for the settlement of disputes, if any.

Government should take a wise decision on Reservation Policy and provide proper package of assistance to products affected by de-reservation to enhance their competitive Power. To achieve desired growth rate in SSI sector during Xth Plan period effective steps are needed towards upgradation of technology' easy and timely availability of credit at reasonable rates of interest, adequate infrastructure facilities, market exposure etc., to SSI units. It is necessary to have a comprehensive law to address the concerns of SSI sector in respect of issues relating to credit, marketing, delayed payments, seamline of inspections, etc. The spirit in the policy to wards small industry is not reflected in the financial outlays of development plans in India. Plan outlays are insignificant compared to the contribution of small industry to industrial production' employment and exports. The Government of India should increase the quota of small industry in financial outlays. It is necessary to have a 'World Wide Data Base system' as well as 'Technology Bank' which provides necessary data and information to SSIs on WTO provisions and cost structure of products of various countries, information on technologies available and their sources, etc., and it should be made mandatory for each county to provide such information.

Government should take steps to have proper co-ordination among different assisting agencies which are setup for the development of SSIs and all this services and facilities should be offered as a package for the past progress of small scale sector. Government should also take steps to introduce courses on self-employment in SSI sector and Entrepreneurship Development at school and college levels and creates centers for Entrepreneurship Development in universities. Government should also conduct training programmes to educate and create consciousness among SSI entrepreneurs about the scientific packaging techniques, latest design of packaging technology, modern management practices and skill upgradation, etc., to make Indian market globally competitive.

Conclusion

It is evident from the ongoing analysis that SSI sector has a vast potential in terms of employment, output and exports. Keeping in view the significant performance of the sector since the onset of reforms, the Government of India has planned a growth rate of 12 per cent during 2002-07. In the changing business environment the SSI units have to face severe competition both from the heavy industries as well as from the foreign countries.

The technological development have changed the methods of business drastically with WTO regulations coming into force especially from January 2005 these ctoris exposed to greater market competition. The problems are numerous. However, with the removal of quantitative restrictions on several products the SSI sector has to gear up to face the challenges ahead with active government support and private entrepreneurial initiative.

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