

A study on the challenges of small scale industry

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Abstract

The concept of 'small scale industry' is not only new to India but also practicing in the age old traditional systems in the ancient period. The definition of small scale industries are changing its central idea and have been shaped in the planning period. Since then it was maintained till the year 2006. These units have been merged with "Micro, small and Medium Enterprises" (MSME). The act clearly divided into two categories of industries; one is enterprises engaged in the manufacturing of production of goods pertaining to any industry, also another is, in the case of enterprises engaged in providing or rendering of services.

Keywords: enterprise, production, goods

Introduction

Despite of recommendable contribution to the nation's economy, the SSI sector does not get the required support from the concerned Government Departments, Banks, Financial Institutions and Corporate, which become a handicap for more competitive in the National and International Markets. Small-scale industries in India could not progress satisfactorily due to various problems that they are confronted with while running enterprises.

Challenges

In spite of having huge potentialities, the major challenges, small industries face are given below

1. **Problem of skilled manpower:** The success of a small enterprise revolves around the entrepreneur and its employees, provided the employees are skilled and efficient. Because inefficient human factor and unskilled manpower create innumerable problems for the survival of small industries. No availability of adequate skilled manpower in the rural sector poses problem to small-scale industries.
2. **Inadequate credit assistance:** Inadequate and timely supply of credit facilities is an important problem faced by small-scale industries. This is partly due to scarcity of capital and partly due to weak creditworthiness of the small units in the country. Lack of finance is the main obstacle for the development of small-scale industries. The financial problem of small industries is a part of the wider problem of capital scarcity in the economy as a whole and it is partly due to the peculiarity of small industry organisation. The creditworthiness of small borrowers is generally weak and therefore they face reluctant creditors who may be induced to lend only at a very high rate of interest.
3. **Irregular supply of raw material:** Small units face severe problems in procuring the raw materials whether they use locally available raw materials or imported raw materials. The problems arise due to faulty and irregular supply of raw materials. No availability of sufficient quantity of raw materials, sometimes poor quality of raw materials, increased cost of raw materials, foreign exchange crisis and above all lack of knowledge of entrepreneurs regarding government policy are other few hindrances for small-scale sector.
4. **Absence of organised marketing:** One major problem of small-scale industries is marketing. These units often do not possess any marketing organization and consequently their products compare unfavorably with the quality of the products of large-scale industries. Therefore they suffer from a competitive disadvantage vis a-vis large-scale units. In the absence of organised marketing, their products compare unfavorably with the quality of the product of large-scale units. They also fail to get adequate information about consumer's choice, taste and preferences of the type of product. The above problems do not allow them to stay in the market.
5. **Lack of machinery and equipment:** Small-scale units are striving hard to employ modern machineries and equipment in their process of production in order to compete with large industries. Most of the small units employ outdated and traditional technology and equipment. Lack of appropriate technology and equipment create a major stumbling block for the growth of small-scale industries.
6. **Absence of adequate infrastructure:** Indian economy is characterized by inadequate infrastructure which is a major problem for small units to grow. 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 drainage 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.
7. **Competition from large-scale units and imported articles:** Small-scale units find it very difficult to compete with the product of large-scale units and imported articles which are comparatively very cheap and of better quality than small units product.

8. Other problems: Besides the above problems, small-scale units have been of constrained by a number of other problems also. They include poor project planning, managerial inadequacies, old and orthodox designs, high degree of obsolescence, transportation problems, lack of power, and lack of adequate warehousing, lack of information. Due to all these problems the development of small-scale industries could not reach a prestigious stage

Analysis

In day to day life, the management has to take several decisions in any business concern. The soundness of the financial decisions taken by management depends upon the accessibility of accurate, meaningful and timely financial information. The financial information of any firm comes from its accounting system.

These days, in small-scale industries, the owners or management have realized the importance of maintaining proper books of accounts. Proper accounting system does not necessarily mean complex one.

It can be quite simple, as long as, it provides the small business manager with the needed information. There is no need to spend scarce time and money compiling information that will never be used. As per the information collected, in Latur 92 percent of the industries are preparing accounts books. Maintenance of proper accounts is correlated with the size of the units.

Table 1: Maintenance of Proper Accounts in Small-Scale Industries in Latur

Name of Industry	Yes		No		Total No.
	No.	%	No.	%	
Garments	5	6.9	67	93.1	72
Auto-parts	3	7.9	36	92.3	39
Electronics	4	7.1	52	92.8	56
Metal Products	2	3.0	65	97.0	67
Rubber & Plastics	3	5.7	50	94.3	53
Others	7	8.6	74	91.4	81
Total	24	6.5	344	93.5	368

Use of Cost-Reduction Techniques in Small-Scale Industries

In today’s world of competition, it becomes necessary for every industry both in large scale and in small scale sector to control their cost of production. Particularly in post-liberalization period, the survival of the small-scale industries depends mainly upon the cost reduction techniques to reduce the costs of their product.

The competition, in the present context, has transcended the regional and even national boundaries and has acquired an international proportional. In such a situation, the industries have to compete at international level in case of some products.

Day by day, the Government is going to relax the list of items which were earlier exclusively reserved for the small-scale sector. So, to survive in long turn, it becomes necessary to use new techniques of cost control. But again, in the small sector, finance is the main constraint.

Owing to the lack of education, the owners themselves, cannot use the techniques of the cost control without the help of experts. This is the main reason that most of them are not

using cost reduction techniques. They are even not aware of the techniques available.

Table 7 depicts that only 10 percent industries are using some techniques to reduce their cost of production. In this category, the maximum percentage is 20 of auto-mobile industry which are using cost reduction techniques due to requirement of their industry.

As explained earlier, for example, in Maruti Udyog Ltd., which is a major customer of Auto-parts in Latur, rates for supply of parts are determined by the company and if the auto-parts have to get an order for supplying parts, they will have to quote minimum rates. After obtaining the order, the auto-part units in order to earn some profit, would have to produce the demanded product still at a lower cost. Due to this compulsion, 20 percent auto-part industries are employing cost reduction techniques in the category of other industry is 16.3 followed by electronics 8.3 percent, rubber and plastic 7.1 percent, garments 5.1 percent and least in metal products industry 3.8 percent are using cost reduction techniques.

Table 2: Use of Cost Reduction techniques in Small-Scale Industries in Latur

Name of Industry	Yes		No		Total No.
	No.	%	No.	%	
Garments	4	5.0	76	95.0	80
Auto-parts	10	25.0	30	75.0	40
Electronics	5	8.3	55	91.7	60
Metal Products	3	3.8	75	96.2	78
Rubber & Plastics	4	7.1	52	92.9	56
Others	14	16.3	72	83.7	86
Total	40	10.0	360	90.0	400

Funds flow and cash flow statements in small-scale industries

Most end users of annual reports are interested in knowing whether the enterprise would be able to generate enough cash for purposes of meeting its financial commitments. This need arises because the income statement, as it is normally prepared, does not indicate the cash generated by a business unless several adjustments are made to transform the profit figures, prepared on an accrual basis to generate the figures relating to the movement of funds.

Although, the balance sheet and income statement are essential to decision makers within and outside the firm, together they do not provide complete information in respect of significant changes which may have occurred in all of the company’s asset, liability and owner’s equity items during the accounting period such as purchase and sale of fixed assets, issue of share capital, raising and redemption of long term loans etc. affecting the liquid resources.

Hence, for a better understanding of financing and investing transactions, those occur during the accounting period, more information is needed. In small-scale industries, the owner might prepare his own rough estimate of these investments and financing activities by comparing the balance sheet.

It is clear from Table 8 that only 29.5 percent industries are preparing cash flows and funds flow statements both or one of them. In small – scale sector, the maximum percentage (70%) is in auto- parts industry followed by others industry 34.9 percent, garments industry 33.7 percent, electronics 18.3

percent, rubber and plastic 17.8 percent and least in metal products industry 15.4 percent.

Only these industries prepare cash flow and/ or fund flow statements. Most of the owners in small scale sector even do not know the meaning or importance of these two significant statements.

These statements are prepared in small-scale industries only by big units working as a company or partnership firms. In some cases, these are prepared by industry on demand of bankers or creditors. These two statements are very popular these days in large firms owing to multiplicity of transactions.

Table 3: Preparation of Funds Flow & Cash Flow Statements in Small-Scale Industries in Latur

Name of Industry	Yes		No		Total No.
	No.	%	No.	%	
Garments	27	33.7	53	66.3	80
Auto-parts	28	70.0	12	30.0	40
Electronics	11	18.3	49	81.7	60
Metal Products	12	15.4	66	84.6	78
Rubber & Plastics	10	17.8	46	82.2	56
Others	30	34.9	56	65.1	86
Total	118	29.5	282	70.5	400

Amount Spent On Maintenance of Accounts in Small-Scale Industries

These days each and every businessman has realized the importance of maintenance of accounts. Except very small business in which the number of transacts are less and financial position does not allow, all other industries are maintaining proper accounts.

But, when we analyze the percentage of sale amount spend on maintenance of proper accounts, we should find as shown in Table 9 that majority of the units 61.5 % in small scale sector in Latur are just spending 0.6 to 1 percent of their sales value on accounting.

In the age of intense competition, the management and owners need various kinds of information to make plans, strategies and policies. These necessary information can be availed only by maintain proper accounting system. There are 20.2 percent industries spending just 0.5 percent or less of sales amount on accounting.

Conclusion

The promotion of SSI is essential in developing economies like India to achieve equitable distribution of income & wealth, economic self-dependence & entrepreneurial development. To empower the SSI sector to take its rightful place as the growth engine of Indian economy, it is necessary to support the MSMEs, educate and empower them to make optimum utilization of the resources, both human and economic, to achieve success. The SSIs need to be educated and informed of the latest developments taking place globally and helped to acquire skills necessary to keep pace with the global developments.

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