

Potentials, Prospects and Problems of SSI

A Case Study

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Abstract

The small-scale industry acts as a thrust in the economic development of any country. It kindles private ownership and entrepreneurial development. Private sector and entrepreneurial development are some of the pre-requisites for economic transformation. Therefore the small scale industry can transform the country economically. India has not been an exception and the industry has played a significant role over the years. This paper deals with assessment of potentials, measurement of prospects and identification of problems of the SSI units working in Varanasi. The paper is empirical in nature based on the survey of 101 SSI units situated in Varanasi.

Introduction

India is a country of villages and the villages are the motherland of small-scale and cottage industries. In fact, the small-scale industry is the hub of many economic activities in a developing country like India. It has emerged over the years as a highly vibrant and dynamic industry of the Indian economy. The socio-economic transformation of the country cannot be achieved fully without paying adequate attention to the development of this industry. The small-scale industries serve the society in several ways. They provide immediate large-scale employment. They have higher labour-capital ratio. They require a shorter gestation period. They need lower investment. They require small markets. They not only offer a method of ensuring an equitable distribution of national income, but also facilitate an effective mobilization of resources, capital and skills which might otherwise remain unutilized. The important fact about the small-scale industries is that they

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stimulate the growth of industrial entrepreneurship and promote a more diffused pattern of ownership and location. The small-scale industries sector in India covers a widely divergent spectrum of industries categorised under small, tiny and cottage segments ranging from small artisans/handicraft units to modern production units using sophisticated technologies with significant investments and producing a wide range of products, exceeding 7500.

Of course, the SSI sector plays a very significant role in the economic development of the country. But at the same time, assessment of potentials, measurement of prospects and identification of problems are the fundamental issues an industry faces – whether big or small. As a matter of fact, possessing high potential, foreseeing bright market prospects and facing minimum problems are the clear indicators of sound industrial growth and healthy environmental condition. It is because of the fact that while potentials reveal the strengths and vigour an industry possesses, prospects portray the picture of sound absorption capacity of the markets which act as a vital motivating force to produce more and more. On the other hand, problems are expressed in terms of weaknesses, threats and challenges which act as stumbling blocs in the way of better industrial performance. It may be possible that an industry has enormous potentials and its products have prosperous markets – both domestic and foreign, but if the industry is shrouded in problems, threats and challenges, it would be quite difficult to grow and diversify. The small-scale industries in general and the small-scale industries of Varanasi in particular have been in a mixed condition. Undoubtedly, the small-scale industries particularly in Varanasi have high potentials and good market prospects, but they have also a host of intractable problems which hamper their proper growth and prosperity.

Methodology Used

Objectives: The present study has the following objectives:

1. To assess the potentials of SSI units operating in Varanasi.
2. To measure the prospects of SSI units operating in Varanasi and
3. To identify the problems specially production, finance and personnel problems of SSI units operating in Varanasi.

Scope: The present study is fundamentally exploratory and descriptive in nature and is a case study of small-scale industries located in the Varanasi district. The small-scale units covered in this study belong to thirteen industries, namely Banarasi saree, powerloom saree, embroidery, saree printing, ready-made garments, hosiery, food, wood, chemicals, engineering, zaree, glass beads and enamelling.

Period: The study covers a ten-year period starting from 2000 onwards.

Sample: The samples have been taken from the register of the industries maintained by the District Industry Centre (DIC), Varanasi on the random basis. Initially, a sample of 250 units belonging to different categories were taken, but in the course of survey it was observed that a large number of units have disappeared from the actual place of work. It may be noted that every year several units are registered with the DIC but due to one reason or the other most of them could not survive on sound footing and eventually die in due course of time. Further, there were units which could not response our queries satisfactorily. At last, we had to satisfy with only 101 units which could response our queries in a satisfactory manner.

Tool: Questionnaire method has been used to collect data from the respondents. However, secondary data have also been used wherever found necessary. First of all, structured questionnaires were supplied to sampled units. In addition, other research techniques like personal interviews, observations etc. have also been adopted for the purpose of obtaining valued information. For analyzing multiple choice questions, the Composite Weighted Score (CWS) method has been used. Under this method different alternatives have been assigned weights in order of preference.

Potentials of Small-Scale Industries

The small-scale industries located in Varanasi possess high potentials. Their potentialities can be assessed on the basis of the location of units, availability of means of transport and communication, flow of domestic and foreign tourists, availability of power, availability of labour force, nearness to different market areas, facilities of entrepreneurial skill development, nearness to government institutions and agencies, availability of different banks and financial institutions, radio station, television centre, etc.

Varanasi is itself an important city, with a population of more than 30 lakhs, of the country in general and Uttar Pradesh in particular. In this regard, the most striking feature is that the city has been a very important religious and education centre of the country since ancient times. It has also been renowned as a city of temples throughout the world. In recent years Varanasi has become a very important business centre too and is well-connected with different important cities of the country by rail and air. It has road link with every part of the country. It may be noted that the famous Grand Trunk road, popularly known as G.T.Road which connects Delhi to Kolkata passes through this city. Further, it being a famous tourist centre attracts huge number of domestic and foreign tourists. It is estimated that the city has about 3 lakh floating population every day. In the matter of power, the city has a good network of electricity supply which an industry may use comfortably. As stated earlier, Varanasi is a very important city of eastern Uttar Pradesh surrounded by hundreds of villages of different sizes. With the growth of the population the number of labour force has been increasing tremendously. Further, there are about 6 lakh villages in the country and Uttar Pradesh has the highest number of them. There are about one lakh villages in state. It is worthwhile to mention that the villages are the hub of the labour force. Similarly, unemployment is also very much acute in the villages particularly of eastern Uttar Pradesh. The small-scale industries have large potentials to significantly reduce village unemployment by absorbing the labour force. Due to the abundance of the labour force, labour is cheap in this area. This further exhibits the potentialities of small-scale industries in Varanasi. This certainly suits highly to the small-scale industries of Varanasi because these industries are labour intensive by character. As Varanasi is virtually the centre of eastern Uttar Pradesh which is very much near to other important cities of the state like Allahabad, Lucknow and Kanpur. It is also in the centre of several other important district head quarters like Bhadohi, Mirzapur, Chanduali, Ghazipur, Azamgarh, Devaria, Jaunpur etc., which are also important centres for business. The city of Varanasi has the credit of possessing one central university like Banaras Hindu University. Similarly, there are other two universities in the city, namely, M.G.Kashi Vidyapeeth and Sampurna Nand Sanskrit University. Similarly, there are other autonomous institutions engaged in providing business education and professional skills. Several state and central governments' organizations and institutions have also

been set-up for promoting business and industries in this area. Apart from these, there are several public sector banks and their regional offices followed by other financial institutions working in this city. All India Radio station and television centre also operate here. It is up to the reach of entrepreneurs engaged in the small-scale industries operating in Varanasi. If these facilities are used properly there may be a very good network of small-scale industries in this area.

Prospects of Small-Scale Industries

The small-scale industries in India (including the industries in Varanasi) have very good future prospects. As a matter of fact, the prospects of any industry rest on the size of market, the nature and pattern of demand, customers' attitudes and behaviour, economic conditions of individual customers, cost of manufacturing and marketing, the support of government and different institutions etc. It may be noted that the small-scale industries in the country have been manufacturing a large number of products of varied qualities, sizes, designs, etc. It means each and every segment of the market of the country may be a potential market segment for the products of small-scale industries. All the products manufactured by the small-scale industries can be marketed not only in the foreign countries but in domestic market also. Similarly the prospects of the small-scale industries operating in Varanasi are also very bright. For example, our sample units manufacturing Banarasi sarees and powerloom sarees offer these products in different designs through printing and embroidery. Similarly, the units engaged in ready-made garments and hosiery products are equally good and within the reach of the Indian customers. Different food items are also being used by the Indian customers. Chemicals and engineering products and also zarae work are sold in the Indian markets. All these show that if a small-scale unit manufactures its products of right size and of right quality with right designs and colour combinations and offers the product at right price at right place and with right market information there is no reason to believe that customers will not prefer such types of products of the small-scale units as compared to that of big modern industrial units. Apart from the above facts, there are several other factors which abundantly reveal the better prospects of the small-scale industrial units.

Apart from the above, motivating forces, there are other forces too. These industries for the purpose of expanding production may easily draw required number of human resources at cheap rate. Now-a-days with a rise in literacy rate, the industries may get educated workers who can be trained for performing specific jobs easily. There are several government schemes aimed at upgrading, expanding and diversifying the small-scale industrial units in the country not only for generating revenues to the units and employment to the society but also for enhancing foreign exchange earnings of the country. If these facilities provided through various schemes are availed of, these industries can be developed tremendously. In brief, the factors which can change the face of small-scale industries and which can make these industries very much competitive are presented in the following box:

- Less capital intensive.
- Extensive promotion and support by government.
- Reservation for exclusive manufacture by small-scale sector.
- Project profiles.
- Funding – finance and subsidies.
- Machinery procurement.
- Manpower training.
- Technical and managerial skills.
- Tooling and testing support.
- Reservation for exclusive purchase by government.
- Export promotion.
- Growth in demand in the domestic market size due to overall economic growth.
- Increasing export potential for the Indian products.

As a matter of fact the small-scale industries in the country have been making significant contribution to employment generation and rural industrialization because of their less capital intensive and high labour absorption nature. It may further be noted that these industries are ideally suited to build on the strengths of our traditional skills and knowledge, by infusion of technologies, capital and innovative marketing practices. Hence, it may be said that the outlook of the small-scale industries in the country is

positive, indeed promising, given some safeguards. The diversity in production systems and demand structures ensure long-term co-existence of many layers of demand of consumer products/technologies/processes. There will be flourishing and well grounded markets for the same products/process, differentiated by quality, value added and sophistication. These characteristics of the Indian economy will allow complimentary existence for various/diverse types of units. The promotional and protective policies of the government have ensured the presence of the small-scale industries in an astonishing range of products, particularly in consumer goods.

The system of preferences for the small-scale industry products has been introduced under government purchase programme subject to a certain specific conditions. "Being a direct and positive measure of marketing aid to small industry product the system is still in vogue and covers 220 products which are exclusively purchased from small-scale sector. In addition to administering this programme, the National Small-Scale Industries Corporation is an instrument for small-scale units to participate in the purchase programmes of the railways and post and telegraphs department."

As stated earlier, the small-scale industries contributed significantly to India's export. The government, realizing the export potentials and prospects of small-scale industries, has implemented a scheme for Market Development Assistance for small-scale industry exporters. The Market Development Assistance Scheme is currently operated by Ministry of Commerce with a view to encourage exporters (including SSI exporters) to access and develop overseas markets. The scheme offers funding for participation in international fairs, study tours abroad, trade delegations, publicity etc. Direct assistance under this scheme for small-scale units is given for individual sales-cum-study tours, participation in fairs/exhibition and publicity. The Small Industry Development Bank of India (SIDBI) operates a scheme of a direct assistance for financing activities relating to marketing of SSI products. The assistance under the scheme may be availed of for undertaking mainly the following marketing related activities:

1. Marketing Research.
2. Research and Development, product upgradation and standardization.
3. Preparation of strategic marketing plan.

4. Advertising, branding, catalogue preparation, production of audio-visual aid etc.
5. Participation in trade fairs and exhibitions, undertaking sales promotion tools etc.
6. Establishing distribution network including showrooms/retail outlets and warehousing.
7. Training of personnel in activities relevant to marketing etc.

Problems of Small-Scale Industries

Though the small-scale industries in India in general and Uttar Pradesh in particular is capable of expanding and diversifying the production base by producing a large range of products ranging from low to high quality products, these industries have been facing a lot of problems. The problems of the industries become serious because of the fact that the industries by nature are ill-organized, ill-equipped, ill-informed and incapable of establishing effective link with the market. Further, these industries throughout the country lack professionalism from the very beginning of anticipating market demand, collecting orders, and making production schedule to finally selling the products in the market. Those manufacturing units, though the number of such units are very much limited, which have developed even with a little bit of professionalism have virtually not been even facing any serious problems at any level. As stated earlier, about 5000 units of small-scale industries have been engaged in direct exporting. It means that these units are enjoying. They are reaping the benefits offered by the governments and various others institutions and organizations. As a result, they are not only influencing the government effectively but they are also influencing the foreign buyers. Thus, as buyers, the foreign buyers do not expect any thing more and the government may not be very serious if foreign exchanges are coming into the country comfortably. The rest of the small-scale industrial units which are virtually sufficient in numbers are in the quagmire of unmanageable problems. The small-scale industrial units operating in Varanasi are also in the latter category. Their problems are varied and many and all of them are running their units anyhow.

Production Problems

Small-scale units are often faced with the problems associated with production. The production is affected due to various factors. The predominant factor that hampers the production process is the non-availability of suitable machinery supplies. Lack of sound production planning and control system, technological obsolescence, inability to upgrade the technology, scarcity of raw materials, improper layout, high cost of inputs, government policies, power failure and shortage, underutilisation of capacity, lack of research and development, are the other problems that adversely affect not only the production but also upset the cost of production as well as the quality of the finished products. In order to ascertain the problems relating to production faced by the small-scale industries operating in Varanasi, we have conducted an opinion survey, the results of which have been summarised in Table 1.

Table 1
Production Problems of Sample Small-Scale Units
(percentage of responses)

Sl.No.	Production Problems	Yes	No
1	Non-availability of suitable machinery	39 (38.6)	62 (61.4)
2	Lack of sound production planning and control system	89 (88.1)	12 (11.9)
3	Technological obsolescence	50 (49.5)	51 (50.5)
4	Unwillingness to upgrade the technology	50 (49.5)	51 (50.5)
5	Scarcity of raw materials in adequate quantity in time	96 (95.0)	05 (5.0)
6	Improper plant layout	83 (82.2)	18 (17.8)
7	High cost of inputs	99 (98.0)	02 (2.0)
8	Lack of awareness about government policies	96 (95.0)	06 (5.0)
9	Power failure and shortage	101 (100.0)	00 (0.0)
10	Underutilization of capacity	50 (49.5)	51 (50.5)
11	Lack of research and development	95 (94.0)	06 (6.0)
12	Low productivity	98 (97.0)	03 (3.0)
13	Lack of modern factory system of production	101 (100.0)	00 (0.0)

An analysis of the table reveals that power failure and shortage, lack of modern factory system of production, low productivity, lack of research and development facilities, high cost of inputs, scarcity of raw materials at right time and lack of sound production planning and control are the glaring problems faced by the sample small-scale units. Besides, non-availability of machinery supplies, technological obsolescence, and unwillingness to upgrade technology, poor plant layout and underutilization of capacity are other important problems related to production faced by the sample small-scale units. It may be noted that all the sample units have the problems of power failure and shortage and lack of modern factory system. Further, more than 90 per cent of the respondents are of the opinion that low productivity, lack of research and development, lack of awareness about government policies, high cost of inputs and scarcity of raw materials are the problems which they have been facing for a long time. It may be noted that Banarasi sarees, glass beads and enamelling industries are highly labour intensive and, therefore, they require a few simple tools for producing different products. Naturally, such units do not have any problems relating to modern machinery, technological obsolescence, upgrading the technology and underutilization of capacity. Most of the work of these industries is manual in nature and, therefore, this is one of the reasons why they maintain a distinct place in the world market, where the products of modern factories are available in amazing designs, beautiful colour combinations, marvellous appearance, suitable shape and size and at comparatively low prices.

Financial Problems

The scarcity of credit and finance is the major obstacle in the development of small-scale units. The non-availability of adequate amount of credit and finance from the banks and financial institutions creates a situation of financial crisis in the small-scale sector and forces the small entrepreneurs to rely on other sources like money lenders who charge an exorbitant rate of interest. This is extremely damaging to a small-scale units. "It not only increases the cost volume of output but also pushes back the entrepreneur in quality product. This high cost of capital results in the high cost of final products and also leads to escalation in the cost of project". Besides, there is wide gap between the loans demanded and sanctioned and also between the loans sanctioned and disbursed by the

commercial banks to the small-scale sector. Considerable delay can be observed while sanctioning assistance to small-scale units by the financial institutions. In certain cases the officials in-charge of lending institutions, who evaluate the projects, do not possess specialised skill in evaluating the project and thereby it ends up either in non sanctioning of the financial assistance or unnecessary delay while providing finance, both of which are harmful for the health of the small-scale unit. The delay in payment of dues by the buyers has also created severe financial problems. For the purpose of identifying the financial problems faced by the small-scale industries operating in Varanasi, we have again conducted an opinion survey, the results of which have been summarised in Table 2.

Table 2
Financial Problems of the Sample Small-Scale Units
 (percentage of responses)

Sl.No.	Financial Problems	Yes	No
1	Non-existence of sound financial planning	92 (91.0)	09 (9.00)
2	Lack of knowledge of modern financial management	92 (91.0)	09 (9.0)
3	Lack of capital for acquiring/purchasing plant and machinery	77 (76.2)	24 (23.8)
4	Shortage of working capital	73 (72.3)	28 (27.7)
5	Lack of effective co-operation from other financial institutions	69 (68.3)	32 (31.7)
6	Lack of professionalism in maintaining books of accounts	72 (71.3)	29 (28.7)

An analysis of the table reveals that the major problems relating to finance are lack of sound financial planning, Lack of knowledge of modern financial management, insufficient capital for acquiring or purchasing required plant and machineries, lack of working capital, lack of effective co-operation from financial institutions and lack of professionalism in maintaining books of accounts. Of these problems, the most important problem is the non existence of sound financial planning. In this regard, it is important to note that in almost all sample small-scale units, sound financial planning is non-existent. It is because of the fact that the entrepreneurs do not have sufficient knowledge of designing an effective financial planning based on the tools and techniques of modern financial management. For example, in the course of survey, it was found that the

entrepreneurs of small-scale industries did not even compute different financial ratios on the basis of which sound financial decisions can be taken, not to talk of the computation of break-even-point for ascertaining different levels of production and sales. Further, they also suffer from insufficiency of capital which is very much required for acquiring/purchasing plant and machinery and other tools. In the case of Banarasi saree and powerloom saree units, it may easily be observed that the loom holders are not in a position to install new looms in place of old looms. In particular, this is very much true in the case of 76 per cent of the sample units. However, about 24 per cent sample units opine that they do not have any problem in acquiring plants and machinery. In addition, shortage of working capital is also a vital problem for more than 72 per cent of the sample units, while over 27 per cent units do not face the shortage of working capital. In this connection, it is worthwhile to mention that it is the shortage of working capital which compels the entrepreneurs to borrow from indigenous bankers at high rates of interests. About 70 per cent of the respondents expressed the views that whenever they approach to the financial institutions like commercial banks they do not receive any enthusiastic response and co-operation in the matters of borrowings. At times, in the case of very small units the entrepreneurs are not being attended too. Apart from the above, in more than 70 per cent units, the system of maintaining books of accounts is not based on the standards fixed by appropriate authorities. It appears that this may be one of the reasons why the commercial banks are not able to finance the small-scale industries because in any financial institution, there are certain norms which, in no case, can be ignored by the appropriate authorities.

Personnel Problems

The human resource is the most important constituent of any production and marketing systems. Traditionally, too, labour is a vital factor of production. Without efficient human resource, it is impossible even in this age of mechanization and automation to carry on any economic activity profitably and efficiently. If an industry is not equipped with required number of persons with required skills and talents the costs of production and marketing will increase greatly which may erode the profit earning capacity of the enterprise. With a view to ascertaining the personnel problems of the sample small-scale

industries, an opinion survey was conducted. Table 3 contains the results of opinion survey.

Table 3
Personnel Problems of the Sample Small-Scale Units
(percentage of responses)

Sl.No.	Personal Problems	Yes	No
1	Lack of effective personnel planning and policies	90 (89.1)	11 (10.9)
2	Lack of skilled labour	94 (93.0)	07 (7.0)
3	Problem of child labour	11 (10.9)	90 (89.1)
4	Awareness of labour laws	13 (12.9)	88 (87.1)
5	Lack of training facilities at unit level	85 (84.2)	16 (15.8)
6	Lack of reliable work force	87 (86.1)	14 (13.9)
7	Intra industry rivalry relating to skilled workers	88 (87.1)	13 (12.9)

An analysis of the table indicates that the small-scale industries have several problems with regard to personnel, such as, lack of effective personnel planning and policies, lack of skilled labour, problem of child labour, low level of awareness of the labour laws of the country, lack of training facilities at unit level, lack of reliable work force and intra-industry rivalry relating to skilled workers. Around 90 per cent sample units face the problems of skilled labour, absence of suitable personnel planning and policies, lack of reliable work force and intra industry rivalry with regard to skilled workers. Similarly, more than four-fifths of sample units do not have any training facilities at the unit level and similarly they lack the awareness of labour laws. Further, about one-third of the respondents opined that they were also very much afraid of child labour, though none of the units accepted that they had employed any children in their units.

As regards the personnel problems, the small-scale industries are the natural prey of them. It is because of the fact that a well trained and highly skilled personnel may not

prefer to work in a small-scale unit because of low level of salary and unfit working conditions. This shows that the small-scale units are bound to appoint less skilled workers and, therefore, they will always face such types of problems. Further, most of the entrepreneur lack professional education and, therefore, it is natural that they lack the knowledge of various labour laws of the country. Similarly, as the small-scale units do not formulate any effective production planning they are not going to develop any personnel planning and policy. In order to raise the performance and effectiveness of the small-scale industries, it is essential that more and more persons with professional education should be attracted toward these industries. Only then, the problems associated with production, finance and personnel can be tackled in an effective manner.

Conclusion

The preceding analysis reveals that the small-scale industries located in Varanasi possess high potentials. The factors which contribute to their growing potentials are the location of the units, availability of means of transportation and communication, flow of domestic and foreign tourists, availability of power and other environmental inputs, availability of cheap labour force, nearness to different markets, facilities of entrepreneurial skill development etc. If these facilities are used properly, a healthy and competent growth of the small-scale industries could be possible.

The small-scale industries located in Varanasi in particular, and in other parts of the country in general, have a very good future prospect. The factors which create a good future of the industry are the size of market, the nature and pattern of demand, customers' attitude and behaviour, economic conditions of individual customer, cost of manufacturing and marketing etc. There are other positive and growth oriented factors which influence the prospects. These forces are: less capital intensiveness of the industry, extensive promotion and rigorous support by the government, reservation for exclusive manufacture, reservation for exclusive purchase by government, export promotion measures, assistance for project formulation, financial assistance and subsidies, assistance in machinery procurement, tooling and testing support, arrangement for enhancing, technical and managerial skills, manpower, training facilities etc.

In spite of these positive signs, the small-scale industries have also been facing myriad of problems in the areas of production, finance and personnel. Non-availability of suitable machinery, lack of sound production planning and control system, technological obsolescence, unwillingness to upgrade the technology, scarcity of raw materials at right time, improper plant layout, high cost of inputs, under utilization of capacity, lack of infrastructural facilities, low productivity, and lack of modern factory system of production are the important production problems faced by the sample small-scale units. In the same way, lack of sound financial planning, lack of knowledge of modern financial management, shortage of working capital, lack of effective co-operation from other financial institutions, lack of professionalism in maintaining books of accounts and lack of capital for acquiring plant and machinery are the financial problems of small-scale industrial units. The small-scale industries located in Varanasi have personnel problems too. These problems are: lack of effective personnel planning and policies, lack of skilled labour, problem of child labour, non-awareness of labour laws, lack of training facilities at unit level, lack of reliable work force and intra-industry rivalry relating to skilled worker.

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