

SMALL SCALE INDUSTRIAL UNITS – AN OVERVIEW

INTRODUCTION

The small scale industrial sector comprising micro and small enterprises (previously known as tiny and small industrial sector) has been recognized as an engine of growth all over the world. This sector is characterized by low investment requirement, operational flexibility, location wise mobility, and import substitutions. They have been the prime mover of industrial development in many developed economies.

The small scale industrial units are the roots and fruits of economic activities. They provide way of life to more number of people. With less amount of capital investment, this sector contributes more towards GDP, provides more employment opportunities, offers unique product and service offerings, and serves customers with personal attention. Though the large and medium types of industries make the infrastructure and skeleton of an economy, the blood, flesh and skin of a flourishing economy is made up of small scale industrial units.

SMALL SCALE INDUSTRIES (SSI) IN INDIA

Small scale industries have made considerable contribution to the socioeconomic development of almost all the countries including India. In our country, the increasing pressure of population and unemployment has made this contribution even more significant. In India, ever since the days of Mahatma Gandhi, the small scale industry movement has been largely regarded as a vehicle for uplifting the weaker sections of the population whether it is handloom

Definition of Small Scale Industry

Defining small-scale industry is a difficult task because the definition of small-scale industry varies from country to country 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.

Every country has set its own parameters in defining small-scale sector. Generally, small-scale sector is defined in terms of investment ceilings on the original value of the installed plant and machinery. But in the earlier times, the definition was based on employment. In the Indian context, the parameters are as follows.

The Fiscal Commission, Government of India, New Delhi, 1950, for the first time defined a small-scale industry as, one which is operated mainly with hired labour usually 10 to 50 hands. Fixed capital investment in a unit has also been adopted as the other criteria to make a distinction between small-scale and large-scale industries. This limit is being continuously raised upwards by the government. The Small Scale Industries Board in 1955 defined, "Small-scale industry as a unit employing less than 50 employees if using power and less than 100 employees if not using power and with a capital asset not exceeding Rs. 5 lakhs".

REVISION IN THE DEFINITION SMALL SCALE INDUSTRY IN INDIA

In India, the term “small-scale industry” evokes different meanings for different agencies for a long time. The Planning Commission of the Government of India views the entire village and small industries (VSI) sector as SSI sector.

The National Sample Survey Organization under the Central Statistical Organization (CSO) Government of India defines the entire industrial sector in terms of organized and unorganized segments and also in terms of industrial enterprises run by the households and non-households. The Central Excise Department, on the other hand, distinguishes SSI on the basis of the annual turnover of the respective unit. However, with a view to determining the types of industrial units requiring special support, a more clear cut definition was felt necessary. Accordingly, from the industrial policy perspective the size of gross investments in plant and machinery, land and buildings as well as the strength of the work-force in the respective units were the criteria to demarcate a unit as SSI. These rules have undergone periodical changes over

CURRENT DEFINITION OF MICRO AND SMALL ENTERPRISES

Now in India, the small enterprises in the manufacturing sector are defined in terms of investment in plant and machinery (excluding land and buildings), and further classified into micro, small and medium enterprises.

In accordance with the provisions of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006, the Micro, Small and Medium Enterprises (MSME) are classified into two groups

(a) Manufacturing Enterprises

(b) Service Enterprises

The limit for investment in plant and machinery / equipment for manufacturing / service enterprises, as notified, vide S.O. 1642(E) dtd.29-09-2006 is as under:

MICRO ENTERPRISE:

A micro-enterprise is one where the investment in plant and machinery (the original cost excluding land, building and items specified by the Ministry of MSME in its notification No.S.O.1722 (E) dated october 5, 2006) does not exceed Rs.25 lakh.

SMALL ENTERPRISE:

A small enterprise is one where the investment in plant and machinery (see above) is more than Rs.25 lakh but does not exceed Rs.5 crore.

MEDIUM ENTERPRISE:

A medium enterprise is one when the investment in plant and machinery (see above) is more than Rs.5 crore but does not exceed Rs.10 crore.

The definition of MSMEs in the service sector is:

- **Micro-enterprise:** investment in equipment does not exceed Rs.10 lakh.
- **Small enterprise:** investment in equipment is more than Rs.10 lakh but does not exceed Rs.2 crore

(a) **MANUFACTURING ENTERPRISES**

The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the Industries Development and Regulation Act, 1951) or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. The manufacturing enterprises are defined in terms of investment in plant & machinery.

(b) **SERVICE ENTERPRISES** The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

Manufacturing Sector	
Enterprises	Investment in plant & machinery
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees
Service Sector	
Enterprises	Investment in equipments
Micro Enterprises	Does not exceed ten lakh rupees:
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium	More than two crore rupees but does not exceed five crore

The last revision was with the enactment of the MSME Act, 2006 and the definition is a part of the Act. The Act defined the MSME sectors overwriting the earlier concept of small-scale industries of India.

The current classification marks enterprises in manufacturing sector with an investment in plant and machinery of up to Rs 25 lakh as micro, up to Rs 5 crore as small and up to Rs 10 crore as medium enterprises. Similarly, the limits for enterprises providing services are set at Rs 10 lakh, Rs 2 crore and Rs 5 crore for micro, small and medium enterprises, respectively.

MSMEs IN INDIA AT PRESENT

(i) MANUFACTURING ENTERPRISES

The manufacturing enterprise are defined in terms of investment in plant & machinery. The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the Industries Development and Regulation Act, 1951) or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use.

(b) SERVICE ENTERPRISES The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

The promotion of small-scale industrial (SSI) sector becomes inevitable to countries like India due to its inherent strength such as low capital intensity, short gestation period, the high employment potential, capacity to induce dispersal of industrial activities and widening of the entrepreneurial base. Advancements in social, economic and cultural life of human beings in the previous and current centuries brought a significant improvement in the way people think and

MINISTRY OF SMALL SCALE INDUSTRIES

The Ministry of Small Scale Industries (SSI) is a defunct Indian government ministry. It was merged with the Ministry of Agro and Rural Industries to form the Ministry of Micro, Small and Medium Enterprises. The ministry was tasked with the promotion of micro and small enterprises (MSEs). The Ministry of Small Scale Industries and Agro and Rural Industries (SSI&ARI) was created in October 1999. In September 2001, the ministry was split into the Ministry of Small Scale Industries (SSI) and the Ministry of Agro and Rural Industries (ARI).

The Ministry of Small Scale Industries merged with the Ministry of Agro and Rural Industries to form the Ministry of Micro, Small and Medium Enterprises in 2007. The Small Industries Development Organization (SIDO) was under the control of the ministry, as was the public sector undertaking National Small Industries Corporation Limited (NSIC).

The small scale industrial units though seem to be small, when considered individually, have emerged as a dominant force that directs the growth of the economy of a country. The contributions of the small scale industry in different economies, in terms of share to total establishment, share of output, share of employment and share of export are given in Table 3.1³

CONTRIBUTION OF SSI

S.No	Country	Share of total establishment	Share of output	Share of employment	Share of exports	Criteria for recognition
1.	India	95%	40%	45%	35%	Fixed assets
2.	U.S.A	98%	N.A	53%	N.A	Employment
3.	Japan	99%	52%	72%	13%	Employment
4.	Taiwan	97%	81%	79%	13%	Paid up capital Assets & Sales
5.	Singapore	97%	32%	58%	16%	Fixed assets & employment
6.	Korea	90%	33%	51%	40%	Employment
7.	Malaysia	92%	13%	17%	15%	Shareholders funds & Employment
8.	Indonesia	99%	36%	45%	11%	Employments

Source: Dr. Pandey and A.P. Shivesh "Indian SMEs and their uniqueness in the Country,
Munich Personal REPEC Archive 06 December 2007

The fast growth of production, transport and communication technologies paved the way for the development of various industries at different levels of operation. Increase in population and industrial activities in different countries lead to the formation of industrial units of all sizes, namely, large, medium, small and micro.

Primarily, depending on the level of operation, the industrial units are classified under three sectors, namely, large scale, medium scale and small scale sector. For the purpose of such classification different countries follow different yardsticks. In Indian context, a small scale enterprise is broadly defined in terms of the value of investment in fixed assets in plant and machinery, whether held on ownership terms, on lease, or in hire purchase, is Rs. 25 Lakhs to Rs. 5 Crore in case of manufacturing units and Rs. 10 Lakhs to Rs. 2 Crore in case of service units.

According to United Nations Industrial Development Organization, UNIDO, SME contribute to over 55% of GDP and over 65% of total employment in high income countries. SMEs account for over 60% of GDP and over 70% of total employment in low income countries. They contribute about 70% of GDP and 95% of total employment in middle income countries.⁴ In the last decade of 20th century, SSI sector contributed 7% to India's GDP.

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In marketing the products and services, the small scale industrial units face many difficulties like, lack of customer awareness, adoption of latest marketing techniques, availability of adequate finance to support marketing, dissemination of information on product offerings to customers, higher price due to increased cost of products due to small scale production.

It is estimated that this sector has been contributing about 40% of the gross value of output

TABLE 3.2**CONTRIBUTION BY MICRO SMALL AND MEDIUM ENTERPRISES**

Year	No. of Units (in Lakhs)*	Production (Rs. in Crores)*	Employment (in Lakhs)*	Exports (Rs. in Crores)#
2001 – 02	105.21	2,82,270	249.33	71244
2002 – 03	109.49	3,14,850	260.21	86013
2003 – 04	113.95	3,64,547	271.42	97644
2004 – 05	118.59	4,29,796	282.57	124417
2005 – 06	123.42	4,97,842	299.85	150242
2006 – 07	261.01	7,09,398	594.61	182538
2007 – 08	272.79	7,90,759	626.34	202017
2008 - 09	285.16	8,80,805	659.35	NA
2009-10	298.08	9,82,919	695.38	NA
2010-11	311.52	10,95,758	732.17	NA

Sources: Annual Report, 2011-12, Ministry of Micro, Small and Medium Enterprises, www.msme.gov.in Hand book of Statistics on Indian Economy (2011), Reserve Bank of India.

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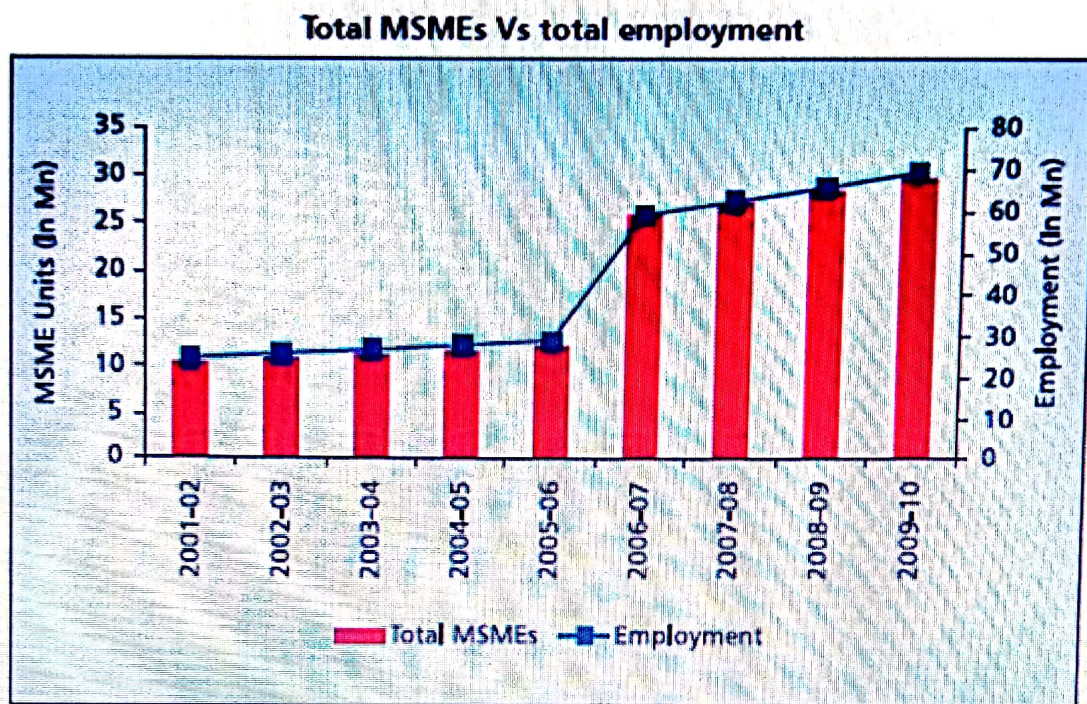
⁵Shambhu Ghatak, Micro, Small and Medium Enterprises in India: An Appraisal, shambhughatak@yahoo.com

From the above Table, it is observed that the total number of Small Scale Industries in India has increased from 118.59 lakhs in 2004-05 to 311.52 lakhs in 2010-11. Coming to the production and employment front also, there has been a steady increase in the over all performance from Rs. 429796 crores and 282.57 lakh persons in the year 2004-05 to Rs. 10,95,758 crore and 659.38 lakh persons in 2010-11 respectively. The export front from SSI Sector was Rs. 124417 crore in 2004-05, which increased to Rs. 202017 crore in 2007-08. From the above data it is to be found that the percentage increases in number of SSIs i.e., 140.46 per cent which results more or less the same in the percentage of employment i.e., 133.34 per cent. This indicates the standard of living of the people some what extent can be raised by the increase in number of SSI units by proving employment which in turn result the increase in national economy.

The Report of Prime Minister's Task Force on Micro, Small and Medium Enterprises, Government of India, January 2010 states SSI units contribute 8 per cent of the country's GDP, 45 per cent of the manufactured output and 40 per cent of our exports.⁶ The total number of working enterprises, including unregistered units, during the year 2006-07 was 2,61,00,797. It provided employment to 6,03,22,199 Units. Of them, 15,52,490 units were registered and made a gross output of Rs.7,09,397,613 Crores.⁷

In the liberalized economy, the small scale industrial units need to strive hard to compete and succeed as against large enterprises. They face a series of challenges from production, marketing, financing, administration and growth point of view. A business has two and only two basic functions: Marketing and Innovation. Marketing and Innovation produce results, all the rest are costs.⁸ Marketing is the core business activity that makes a business unique among the various activities of human beings.

In recent years, the MSME sector has consistently registered higher growth rate compared with the overall industrial sector. With its agility and dynamism, the sector has shown admirable innovativeness and adaptability to survive the recent economic downturn and recession.

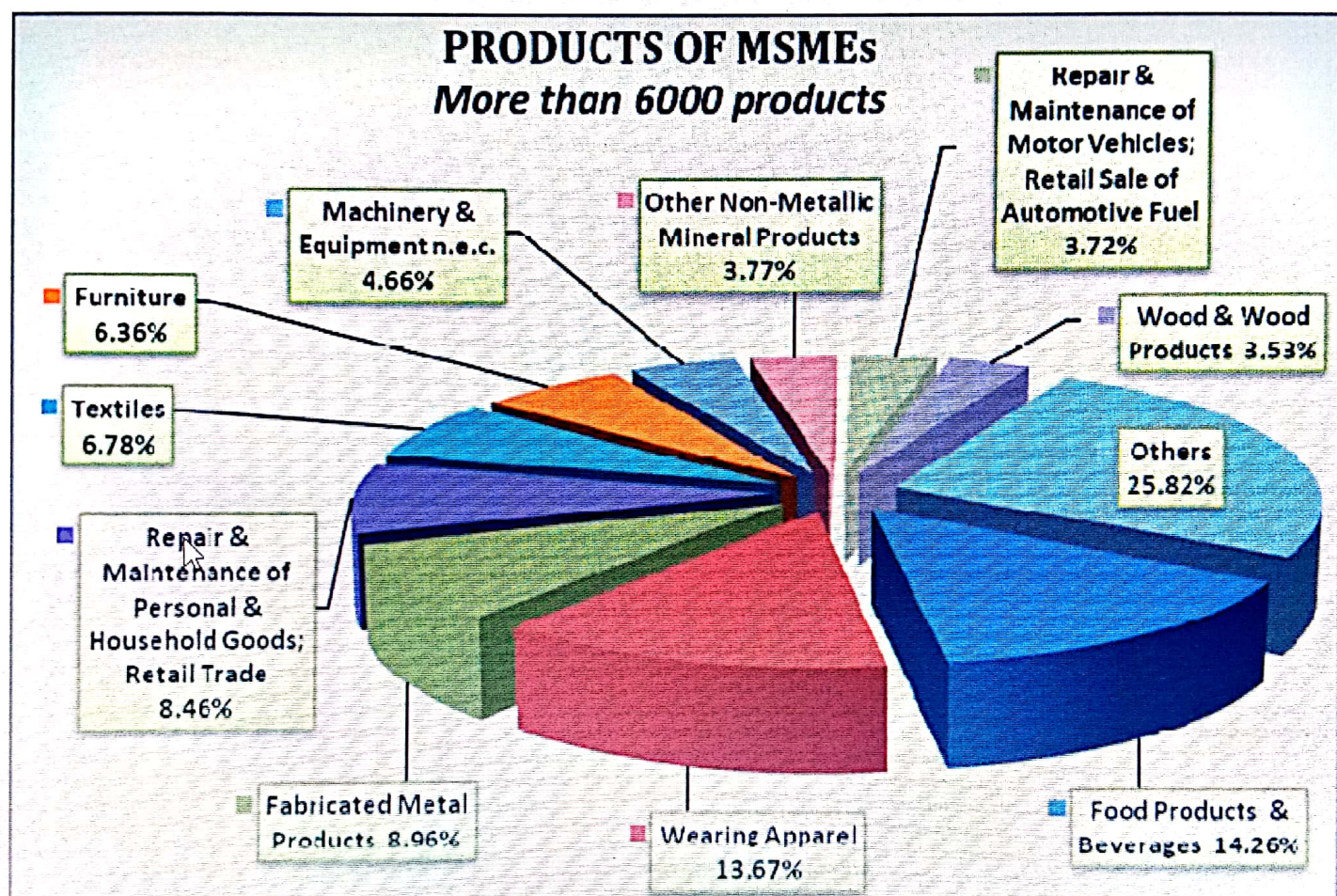


Source: Ministry of Micro, Small and Medium Enterprises, Govt

The MSME sector in India is highly heterogeneous in terms of the size of the enterprises, variety of products and services, and levels of technology. The sector not only plays a critical role in providing employment opportunities at comparatively lower capital cost than large industries but also helps in industrialization of rural and backward areas, reducing regional imbalances and assuring more equitable distribution of national income and wealth. MSMEs complement large industries as ancillary units and contribute enormously to the socio-economic development of the country.

261 lakh enterprises throughout the country. Further, this sector has consistently registered a higher growth rate than the rest of the industrial sector.

There are over 6000 products ranging from traditional to high-tech items, which are being manufactured by the MSMEs in India. It is well known that the MSMEs provide good opportunities for both self-employment and wage employment.



Source: - Final Report of the Fourth All India Census of Micro, Small & Medium Enterprises 2006-07: Registered Sector.