



## **An analytical study of small scale industries sector (SSI) of India (Period of study 1995-2008)**

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### **Abstract**

Small Scale Industries (SSIs), also known as Small and Medium Enterprises (SMEs) in many countries, play a pivotal role in the economic development of nations worldwide. These businesses are characterized by their relatively small size, limited capital investment, and a focus on local or niche markets. The role and importance of SSIs are multifaceted and have far-reaching implications for both the economy and society. They are typically characterized by factors such as limited investment in plant and machinery, a low number of employees, and a focus on catering to local or specialized markets. Small businesses often serve as the backbone of many economies due to their substantial contributions to employment, innovation, and economic growth. This research Paper is based on An analytical study of small scale Industries sector of India during 1995-2008.

**Keywords:** Indian economy, exports, employment, SSIs

### **Introduction**

Independence brought dreams of not just individual, but also economic, social and political freedom. Seventy-two years later, these ideals have undergone a transformation as India seeks to join the \$5 trillion club. Reflecting on what shaped economic policy and the transition to millennial India, Since independence, the performance of Indian economy has been dominated by a regime of multiple controls, restrictive regulations and wide ranging state intervention. Industrial economy of the country was protected by the state and insulated from external competition. As a result of which, India was thrown a long way behind the world of rapid expanding technology. The cumulative effect of these policies started becoming more & more pronounced. By the year 1989-90, the situation on the balance of payment and foreign exchange reserves became precarious and the country was driven to the brink of default. The credibility reached the sinking level that no country was willing to advance or lend to India at any cost. In such circumstances, the government quickly announced a economic policy in 1991 paving way to liberalization, privatization and globalization. Industrial development is directly correlated with the development of the country. However, a number of states in India are backward in terms of industrial development. Even, regional disparity is pronounced in every state. Large and medium scale industries are of special importance in the industrial development of the state. These industries pave the way for the growth of various ancillaries industries and industrial activities in general. The Birla, Tata, Goenka, Sri Ram, Hindustan Lever Modi, Reliance, and several other business houses and groups are setting up industrial units in the state.

### **Objective of the study**

1. To study the Growth Pattern of SSIs Units in India During 1995-2008.
2. To Analysis the trends of Growth Pattern of production in SSIs Units in India During 1995-2008.
3. To Analysis the trends of Growth Pattern of Exports in SSIs Units in India During 1995-2008.

### **Research Methodology**

The research paper is based Secondary data. The Required data and Information have been collected from Annual Reports of Central Government Offices of 1995-2008. The RBI Annual Reports of 1995-2008 and Various Websites relevant to topics.

### **Segregation of Indian Economy**

The economy of India is segregated into three sectors, namely

**Primary sector:** Where the economic activity depends mainly on exploitation of natural resources then that activity comes under the primary sector. Agriculture and agriculture related activities are the primary sectors of economy. The Primary sector of the economy is the change of natural resources into primary products. Most products from this sector provide raw materials for other industries. The share of primary sector has decreased from the past four decades. In 1970 the share of the sector was 50% which has reduced to 29% in 1995 and is now further reduced to 25%. Major businesses in this sector are agriculture, agri-business, fishing, and forestry, all mining and quarrying industries.

### **Agriculture**

Agriculture in India is the major sector of its economy. Almost two-thirds of the total work-force earns their livelihood through farming and other allied sectors like forestry, logging and fishing which account 18% of the GDP. These sectors provide employment to 60% of the country's total population. About 43% of the country's total geographical area is used for agricultural purposes. After independence additional areas were brought under cultivation and new methods, practices and

techniques of irrigation and farming were introduced by the government. The “Green Revolution” and “Operation Flood” in the country have made India self-sufficient in producing food grains and milk. Among other things, the government also tried to decrease the dependence on monsoons. Better seeds, use of fertilizer, education of farmers and provision of agricultural credit and subsidies are reasons for increase in agricultural productivity. Today, India is the major producer of milk, cashew nuts, coconuts, tea, ginger, turmeric and black pepper in the whole world. It is the second largest producer of wheat, sugar, groundnut and inland fish. It is the third largest producer of tobacco and rice. India accounts for 10 per cent of the world fruit production with first rank in the production of banana and sapota (Sapodilla). Agriculture in India is the responsibility of the states rather than the central government. States like Punjab, Haryana, Uttar Pradesh, Andhra Pradesh, Tamil Nadu, Karnataka and West Bengal are major producers of food grains in India. Himachal Pradesh and Jammu and Kashmir are famous for fruit production. Tea is produced in the high altitudes of Assam, Darjeeling in West Bengal, Tripura, Ooty in Tamil Nadu, Himachal Pradesh and Kerala. Kerala is also the largest producer of natural rubber and spices in India. Rajasthan is among the major producers of edible oils in India and second largest producer of oil seeds. Even though there has been a steady decline in its share in the GDP, agriculture still remains the largest economic sector and plays a crucial role in the socio-economic development of the country.

**Secondary Sector:** When the main activity involves manufacturing then it is the secondary sector. All industrial production where physical goods are produced come under the secondary sector. The secondary sector of the economy includes those economic sectors that create a finished usable product and hence depend on primary sector industries for the raw materials. This sector includes Mining, manufacturing and construction. The secondary sector contributes 24% of the share in Indian economy.

### Industry

India’s industrial sector accounts for 27.6% of the GDP and gives employment to 17% of the total workforce. Though agriculture is the foremost occupation of the majority of the people, the government had always laid stress on the industrial development of the country. Thus policies and strategies were framed to give a boost to India’s industry. The government aims at achieving self-sufficiency in production and protection from foreign competition. Since independence, India is marching ahead to become a diverse industrial base. Today India holds some key industries in the sectors like steel, engineering and machine tools, electronics, petrochemicals, textiles and software. Importance has also been given to improve the infrastructure of the country. The government has liberalized its industrial policy thereby attracting huge foreign direct investment. If on one hand several multinational companies opened their offices in India, on the other hand many Indian companies started their operations in foreign countries.

**Tertiary or Service Sector:** When the activity involves providing intangible goods like services then this is part of the tertiary sector. Financial services, management consultancy, telephony and IT are examples of service sector. The share of services in India’s GDP at factor cost increased rapidly from 30.5 per cent in 1950-51 to 55.2 per cent in 2009-10. If construction is also included, then the share increases to 63.4 per cent in 2009-10. The ranking up of the overall growth rate (compound annual growth rate) CAGR of the Indian economy from 7 per cent in the 1990s to 8.6 per cent during the period 2004-05 to 2009-10 was to a large measure due to the acceleration of the growth rate (CAGR) in the services sector from 7.5 per cent in the 1990s to 10.3 per cent in 2004-05 to 2009-10. The services sector growth was significantly faster than the 6.6 per cent for the combined agriculture and industry sectors annual output growth during the same period. In 2009-10, services growth was 10.1 per cent and in 2010-11 (advance Estimates—AE) it was 9.6 per cent. India’s services GDP growth has been continuously above overall GDP growth, pulling up the latter since 1997-98. It has also been more stable.

Liberalization has exposed all industrial units including small units to market competition to a greater extent; globalization intensifies market competition by allowing imports and MNCs into India relatively early. In order to withstand competition, Indian industries, especially the small industries need to improve their productivity, quality, efficiency and reducing cost of production and marketing.

Small firms are often said to grow faster than large firms. However, empirically it is observed that though they have high growth rates, they as a group have a high death rate, that is, and many firms do not last very long. This means that the total effect on the economy may not be much greater than that of relatively larger firms. This section attempts to study the direction of growth in various aspects of small scale industries.

The table below gives the details of growth of SSI units in India.

**Table 1:** Growth pattern in the number of establishments of small scale industries from 1995 – 2008

Year	No. of SSIs	Growth rate (%)
1995-96	26.58	3.38
1996-97	28.03	5.46
1997-98	29.44	5.03
1998-99	30.8	4.62
1999-2000	31.12	4.29
2000-2001	33.7	4.92
2001-02	34.6	2.67
2002-03	35.1	1.45
2003-04	38.6	9.97

2004-05	39.9	8.82
2005-06	42.1	4.92
2006-07	44.7	9.98
2007-08	45.2	8.85

**Source:** Ministry of SSIs Annual Reports of SIDO, Govt. of India. New Delhi

Above table1 depicts that the growth rate of small scale industry and growth rate percentage in the year 1995 - 1996 was 26.58 and registering a growth of 3.8 percent. But during the year 1996 - 1997, it was increased to 5.46 percentages and the year 1997 - 1998, it has been reduced to 5.03 percent. But during the year 2006-07, of 9.98 percentages it has the highest percentage increase, which means that the financial performance of small scale industries in Indian is at decreasing trend and effort should be taken to improve the financial performance.

**Table 2:** Growth rates of SSI sector and total industrial sector in India from 1995 – 2008

Year	SSI Sector Growth Rate (%)	Total Industrial Sector Growth Rate In India
1995 – 96	11.49	13
1996 – 97	11.29	6.1
1997 – 98	9.19	6.7
1998 – 99	7.84	4.1
1999 – 00	7.09	6.7
2000 – 01	8.04	5
2001 – 02	6.06	2.7
2002 – 03	7.7	5.7
2003 – 04	8.6	6.9
2004 – 05	9.96	8.4
2005 – 06	8.09	9.2
2006 – 07	9.86	9.8
2007 – 08	10.2	10

**Source:** SIDO's Half Century, History of small industries Development Organization 1954- 2007 and Ministry of Small Scale Industries, Govt. of India

It could be inferred from the table-2 that the small scale industry has rapid growth over the years. The growth rate of total industrial sector was recorded as 13 percent during 1995 - 1996 but it was decreased during 1995 - 1996 as 11.49 percent In case of total industrial sector, growth rate in India 6.9 percent during 2003 – 2004, but it was increased to 8.4 percent during 2004 - 2005. The growth rate of small scale was 8.6 percent during 2003 – 2004, but it was increased to 9.96 percent during 2004 - 2005. The growth of total industrial sector was 9.86 percent during 2006 to 2007 but it was increased to 10.2 percent during 2007- 2008.

**Table 3:** Growth pattern of production in small scale

Industry in India from 1995 – 2008		(Rs. in Crore)
Year	Production	Growth rate
1995 – 96	121175	11.4
1996 – 97	134892	11.32
1997 – 98	146263	8.43
1998 – 99	157525	7.7
1999 – 00	170379	8.16
2000 – 01	184401	8.23
2001 – 02	195613	6.08
2002 – 03	210636	7.68
2003 – 04	228730	8.59
2004 – 05	251511	9.96
2005 – 06	262277	10.2
2006 – 07	271107	11.82
2007 – 08	292282	11.9

**Source:** www.rbi.co.in.

It is evident from table-3 that the growth has not been consistent through out the study period and decreased substantially after reforms. The value of production in 1995 - 1996 aggregated to Rs. 121175 crores and the growth rate was 11.40 percent. The production rate of small scale industry during 1996 - 1997 was Rs. 134892, crores and growth rate during the year was 11.32 percent. In the case of production, during 2003 – 2004 it was Rs. 228730 crores and growth rate 8.59 percentages. But the

production was increased during 2007 - 2008 was Rs. 292282 crores and the growth rate was 11.90 percentage. The table 2.4 explains the growth pattern in exports of small scale industrial goods during 1995 to 2008.

**Table 4:** Growth Pattern of Exports of SSIs in India.

Year	No.of SSIs	Growth rate (%)
1995-96	36470	25.4
1996-97	39248	7.6
1997-98	44442	13.2
1998-99	48979	10.2
1999-2000	54200	10.6
2000-2001	69797	28.7
2001-02	71244	2
2002-03	86013	20.7
2003-04	97644	13.5
2004-05	98998	11
2005-06	99886	8.98
2006-07	99226	9.77
2007-08	102345	11.24

**Source:** Reserve Bank of India bulletin may-2007

It is inferred from the table 4 that the small scale industrial sector plays a major role in Indian's exports performance. The exports performance of small scale industrial goods during 1995-1996 was Rs. 36470 crores and the growth rate was 25.6 percent. During 2000 - 2001 it has been increased to Rs. 64797 crores and registered a growth of 28.7 percent. The exports performance of small scale industry during 2002 - 2003 was increased to 8013 crores with 20.7 percentage growth rate. During the year 2003-04, its exports valued at Rs. 97644 crores with 13.5 percentage growth rate. But during the year 2007-08 it has the highest percentage increase of 11.24.

The table-5 exhibits growth pattern of employment in small scale industrial sector during 1995 to 2008.

**Table 5:** Growth pattern of employment in SSIS Sector during 1995 – 2008

Year		Employment (In lakhs)	Production per employee (Percentage)
1995	- 96	197.9	61
1996	- 97	205.9	66
1997	- 98	213.2	69
1998	- 99	220.6	71
1999	- 00	229.1	74
2000	- 01	238.7	77
2001	- 02	249.3	78
2002	- 03	260.2	81
2003	- 04	271.4	84
	2004-05	282.6	89
	2005-06	302.9	90
	2006-07	326	94
	2007-08	398.9	95

**Source:** Reserve Bank of India, Bulletin May 2007.

It is evident from the table-5 that the small scale and enterprises are an important source of employment in many developing nations, often employing a sizable share of the labor force. However it is often suggested that small firms are more labor intensive, and therefore should be encouraged as a way of generating employment. It has been estimated that every lakhs rupees of invested in fixed assets in the SSI generates employment for persons. The total number of employment in India during 1995 - 1996 was Rs. 197.9 lakhs and production per employee is 61 percent. During 2000 - 2001, it has increased to Rs. 238.7 lakhs and production per, employment 77 percent. The employment was generated for 271.4 lakhs persons during 2003-04 and production per employee 84 percent. During 2007 - 2008, employee increased by 398.9 lakhs with 95 percentages of growth rates.

### Conclusion

Liberalization has exposed all industrial units including small units to market competition to a greater extent; globalization intensifies market competition by allowing imports and MNCs into India relatively early. In order to withstand competition, Indian industries, especially the small industries need to improve their productivity, quality, efficiency and reducing cost of production and marketing. Small firms are often said to grow faster than large firms. However, empirically it is observed that though they have high growth rates, they as a group has a high death rate, that is, and many firms do not last very long. This means that the total effect on the economy may not be much greater than that of relatively larger firms. This section attempts

to study the direction of growth in various aspects of small scale industries. Small Scale Industries (SSIs), also known as Small and Medium Enterprises (SMEs) in many countries, play a pivotal role in the economic development of nations worldwide. The total number of employment in India during 1995 - 1996 was Rs. 197.9 lakhs and production per employee is 61 percent. During 2000 - 2001, it has increased to Rs. 238.7 lakhs and production per, employment 77 percent. The employment was generated for 271.4 lakhs persons during 2003-04 and production per employee 84 percent. During 2007 - 2008, employee increased by 398.9 lakhs with 95 percentages of growth rates. These businesses are characterized by their relatively small size, limited capital investment, and a focus on local or niche markets. The role and importance of SSIs are multifaceted and have far-reaching implications for both the economy and society. Small businesses often serve as the backbone of many economies due to their substantial contributions to employment, innovation, and economic growth.

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