



Performance Evaluation of Small-Scale Industries in India after Liberalization

^aAman Roshan* & V.C. Sharma^b

^aSchool of Commerce, Hemwati Nandan Bahuguna Garhwal (Central) University, Srinagar, (U.K), India
Email Id: amanroshan2807@gmail.com

^bSchool Of Commerce, Hemwati Nandan Bahuguna Garhwal (Central) University, Srinagar, (U.K), India
Email Id:drocsharma88@gmail.com

Abstract

The Indian economy has seen a tremendous growth in the recent past years. The Small-Scale Industries occupy a place of strategic importance in Indian economy in view of its Considerable contribution to employment, production and exports. However, since 1991, Small-Scale Industries in India find themselves in an intensely competitive environment due to domestic economic liberalization and dilution of sector specific protective measures. The small and medium scale enterprises are known as the backbone of the industrial growth and development. The development of this sector has promoted production, generated employment and has helped in generating a major share of exports in the economy.

This paper probes the Performance evaluation of small-scale industries in India after liberalization and analyses of its growth performance in terms of units, production, employment and exports. The study is based on secondary data. The tools used in this study are simple mean method, percentage method, time series method and ANOVA method. The finding of the study is that there is significant relationship between production, employment and units of SSI. The paper conclude that policy recommendations can ensure the sustenance and competitive growth of small-scale Industries in India.

Key words: liberalization, Small-scale industries, employment, exports, production, growth performance.

PAPER/ARTICLE INFO

RECEIVED ON: 15/09/2015

ACCEPTED ON: 18/11/2015

Reference to this paper should be made as follows:

Aman Roshan & V.C. Sharma, (2015),

“Performance Evaluation of Small-Scale Industries in India after Liberalization”, *Int. J. of Trade and Commerce-IIARTC*, Vol. 4, No. 2, pp. 392-403

1. INTRODUCTION

Rapid growth in the international economic and financial markets leads the countries to competition with each other. The growing integration of economies and societies around the world has been one of the most debated topics in international economics over the past few years. Therefore, it also affects India and its economic policies. Indian economic and business scenario changed in the post-liberalization period which was started after 1991. The new industrial, foreign trade and economic policies of the country encouraged the foreign company's entry into Indian market. This initiative of the government resulted in opening of the economy and created competition among the manufacturing sectors comprising large, medium and small-scale sector.

In order to impart more vitality and grow to small-scale sector, a separate policy statement has been announced for small, tiny and village enterprises on 6th august 1991. This policy statement was a leap- forward because it was the first time that the Indian government had issued a separate policy statement for the small and decentralized sector. Government of India introduced a large number of innovative promotional measures to uplift the growth of small-scale sector.

In general, liberalization refers to a relaxation of previous government restrictions, usually in areas of social and economic policy. In the arena of social policy it may refer to a relaxation of laws, restricting the society. Most often, the term is used to refer to economic liberalization, especially trade liberalization or capital market liberalization. Policies of liberalization are being pursued as part of economic reforms in India. The objectives of liberalization basically are:

- To enhance budgetary receipts.
- To minimize budgetary support towards loss making Units.
- To improve performance by bringing out changes in Ownership and performance through disinvestment.
- To ensure long-term viability and sustainable levels of Employment in public sector enterprises.

As per "Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 of Govt. of India" MSMEs are defined in India as follows:

CLASSIFICATION	MANUFACTURING ENTERPRISES	SERVICE ENTERPRISES
MICRO	Up To Rs 2.5 Million	Up To Rs 1 Million
SMALL	Rs 2.5 To Rs 50 Million	Rs 1 To Rs 20 Million
MEDIUM	Rs 50 To Rs 100 Million	Rs 20 To Rs 50 Million

The definition of small-scale sector is broadened from small-scale industries to small-scale enterprises that include all business enterprises in the service sector which provide service to industrial sector in addition to small-scale industries taking into account all these factors, at present, Reserve Bank of India uses an expanded definition of small scale industries which includes :-

Small-scale industrial undertaking which are engaged in the manufacturing, processing and preservation of goods in which the investment in plant and machinery not to exceed Rs. 5 crore. These would include units engaged in mining or quarrying servicing and repairing of machinery.

- Tiny enterprises whose investment in plant and machinery do not exceed Rs. 25 lakh.

- Power looms.
- Traditional industries which require high workmanship and techniques and also village and house hold industries producing common good of consumption predominantly by using simple tools.
- The decentralized and informal sector like handlooms and handicrafts.
- The industry related to services enterprises.
- Food and agro based industries.
- Software industry.

Some Special Benefits/Measures for SMEs

- Rollover relief from long-term Capital Gains tax to individuals on sale of a residential property (house or plot of land) in case of re-investment of sale consideration in the equity of a new Start-up SME company the manufacturing sector for the purchase of a new plant and machinery.
- Tax pass-through status for Venture Capital Funds (VCFs) registered with SEBI with a focus on SMEs in the manufacturing sector.
- Liberalization of IRDA guidelines to provide for investments by insurance companies in Venture Capital Funds with a focus on SMEs, in consultation with IRDA.
- Easier access to bank finance through appropriate bank lending norms, to be arrived at in consultation with RBI, to cater specifically to the MSME sector and early stage business units.
- Setting up of a stock exchange for SMEs and implementation of SEBI's "framework for recognition and supervision of stock exchanges/platforms of stock exchanges for SMEs."
- 25% grant to SMEs for expenditure incurred on environmental and water audits subject to a maximum of one Lakh rupees in NIMZs.

The development of small-scale industries is being given due importance by the government in order to achieve the following objectives:

- To provide additional employment opportunities
- To mobilize resources of capital and skills from various parts of the country
- To provide a more equitable distribution of national income
- To provide a helping hand to large industries and facilitate them in their work.

According to the latest reports by the SMEs Chamber of Commerce and the Ministry of Micro, Small and Medium Enterprises 2014, India has currently more than 48 million Small medium enterprises and Indian SMEs have grown at a stable pace of 4.5% in the last 5 years. These SMEs contribute more than 45% of India's industrial output, 40% of the country's total exports. It creates 1.3 million jobs every year. After the agriculture sector, SMEs rank second in employment generation. SMEs generated Over 3.50 lack jobs between April 2013 and February 2014. As well as there are over 6,000 products (traditional to high-tech) are being manufactured by the MSME sector for domestic as well as international markets.

2. REVIEW OF LITERATURE

Mohandas, S. (2014), evaluated the implications of liberalization and analyzed the performance based on the production, investment and exports in small-scale enterprises in post liberalization era. The study based on secondary data for 19 years (1992-93 to 2010-11). The study concluded that the country produced and invest more as compared to pre liberalized era and small scale

industries sector in India has been exhibiting a striking export performance ; export had grown up to double digits from the last ten years.

Abdullah, S. Sheik (2014), analyzed the impact of ICT in SMEs and also focuses on generic barriers in adoption of the SMEs. The data collected was based on secondary sources. The Result of the survey shows that, SMEs in the ICT industry play a crucial role in the new economy of India. But the implementation of ICT can cause a number of issues for SMEs, such as insufficient financial sources, lack of experience with ICT and insufficient knowledge and skills in the area of computer literacy of employees.

Anga, Rose Mary (2014), analyzed theoretically and empirically various factors that affect the performance of SMEs in Nigeria. The study was based on primary as well as secondary data. During the research, total 230 numbers of questionnaire distributed and collected from some selected SMEs. Result of the analysis shows that SMEs face lots of challenges, which can be classified into two categories (internal and external factors). It also revealed in the external factors, the major hindrances to SMEs performance are corruption and infrastructure. While the other external factor while are finance, government policies and marketing of the SMEs are less likely to affect the performance of SMEs.

Boston, R.C. (2013), evaluated and highlighted the reason for panic in all India census report on small scale industries. This study was based on secondary data. The study suggested that at the strategy level, there were need to be mechanism by which the demography of small and medium enterprises sector itself becomes a matter of public security.

Kalchetty, Eresi (2008), throws light on various sources of long term and short term finance and the problem faced by the 27 units in raising such funds. The study was based on primary as well as secondary data. Primary data collected through the way of questionnaire and secondary data was collected from articles, magazines, etc. He also enquires into policies producers and practices of small units in managing their finance.

Rathod, C.B. (2007), described the importance of small scale industries and also contribution of Indian small scale entrepreneurs in world economy. The main objective of the study was to study the growth and pattern of the small scale industries sector and identify the reasons for success or failure, to evaluate the impact of globalization on small scale industries and export opportunities, to identify the barriers and constraints that small scale industries were facing to cope up with globalization. The study analyzed that small scale industries in India has been exhibiting a striking export performance; export had grown up to double digits from the last ten years.

3. RESEARCH OBJECTIVES

The following are the research objective:

- To study the growth pattern of small scale industries based on these parameters, viz. units, production, employment, and exports.
- To assess the relationship and performance of small scale industries after liberalization reference to production, units and employment.

4. HYPOTHESIS

H₀₁- There is no significant relationship between production, units and employment of small scale industries.

5. RESEARCH METHODOLOGY

- Time periods- This study covered the last 24 years (1991-2014).

- Data collection- This study based on secondary data. Data collected are from various sources such as such RBI, MSME and SSI, Annual reports, Journals, Magazine, News Paper, etc. some information is also collected from different issues of economic survey published by government of India.
- Data Analysis- We used mean, simple percentage, time series and ANOVA.
- Parameters of the study- units, production, employment, exports are the parameters of this study.
- # represents the expected values of the parameters used in this study.

6. Number of SSI Units

Table 1 provides the information for the period from 1990-91 to 2013-14 in India is show in the following table:

Table No. 1
(Units in millions)

Year	Units	% increase to previous year
1991-1994	28.85	-
1995-1998	33.83	17.26
1999-2002	39.69	17.32
2003-2006	46.55	17.28
2007-2010	117.72	152.89
2011-2014#	137.40	16.72

Interpretation

The units or manufacturing units in Small Scale Industries were 6.79 millions in the year 1991. These increased to 37.80 millions in the year 2014. Units of Small Scale Industries showed an incremental increase 117.72 millions in the year 2007-10 from 46.55 million of 2003-06. The difference shown in percentage was about 153. This was due to new enterprises inclusion some of them, handicrafts, wooden works, jute crafts, paper, handlooms, etc.

7. PRODUCTION

Table 2 provides the information about the growth of Small Scale Industries on production Front during the period of 1991 to 2014.

Table 2
(Production in Crores)

Year	Production	% increase to previous year
1991-1994	342626	-
1995-1998	624888	82.38
1999-2002	987781	58.07
2003-2006	1607035	62.69
2007-2010	3363881	109.32
2011-2014#	5469391	62.59

Interpretation

Small scale industries were producing 78802 crore worth of goods in 1991 which was increased to 1689756 crore worth of production in 2014. Whereas, the slab of 2007-10 shown the maximum growth in percentage and real time increase as compared to others slabs. This seems to increase due to inclusion of new enterprises in that sector which shown the drastic increment in production of units.

8. EMPLOYMENT

In India, the Small Scale Industries in creating employment opportunities are really a matter of great interest. The table 3 provides the information of small scale sector on the growth of employment for the period 1991-2014:

Table 3
(Employment in Million Nos.)

Year	Employment	% increase to previous year
1991-1994	68.17	-
1995-1998	80.84	18.59
1999-2002	94.29	16.64
2003-2006	112.65	19.47
2007-2010	345.07	206.32
2011-2014#	417.55	21.00

Interpretation:

The employment provided by the Small Scale Industries were 15.83 million people and which gone up to 113.21 million people in 2014. The year 2007-10 shown the massive increase in employment which was due to increase in units and production. This shown the increase of 345.07 from 112.65 and the percentage increase was 206.32.

9. EXPORTS

In the context of liberalization and globalization of Indian economy, the performance of small Scale sector in the field of exports needs a closer look. The exports of small scale industries for the period of 1991-2014 are:

Table 4
(Exports in Million Nos.)

Year	Exports	% increase to previous year
1991-1994	66638	-
1995-1998	149228	123.94
1999-2002	244220	63.66
2003-2006	458316	87.67
2007-2010	885158	93.13
2011-2014#	1724962	94.87

Interpretation:

The value of exports in 1991 was 9664 million units and it becomes 559265 million units in 2014. The exports were majorly governed by the government policies but there were the factors which

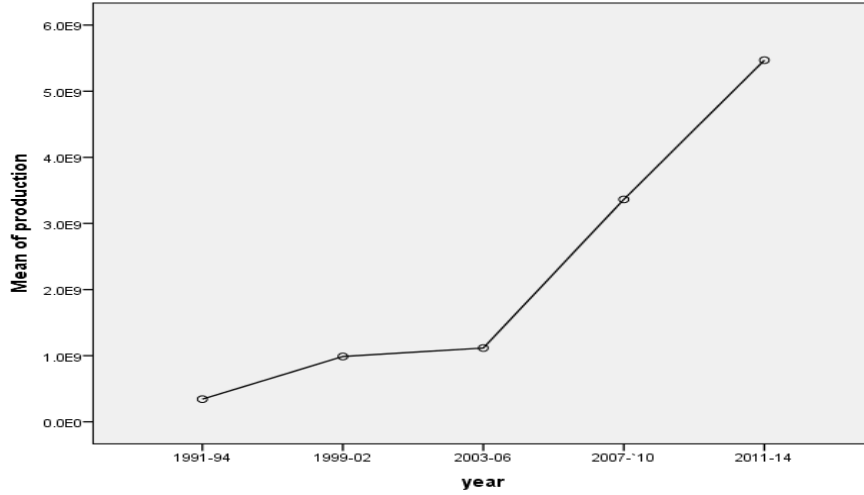
affect the exports of goods of small scale sector. This also includes technological up gradation, competition of international market, products marketing and negotiation procedures.

ANOVA								
			Sum of Squares	df	Mean Square	F	Sig.	
production	Between Groups	(Combined)	1920528582144 2834000.000	4	4801321455360 708600.000	9.955	.233	
		Linear Term	Weighted	1388810020201 4745000.000	1	1388810020201 4745000.000	28.795	.117
			Deviation	5317185619428 089900.000	3	1772395206476 029950.000	3.675	.362
	Within Groups		4823063648044 99970.000	1	4823063648044 99970.000			
	Total		1968759218624 7336000.000	5				
employment	Between Groups	(Combined)	1171451096.333	4	292862774.083	57.885	.098	
		Linear Term	Weighted	768669627.418	1	768669627.418	151.930	.052
			Deviation	402781468.916	3	134260489.639	26.537	.142
	Within Groups		5059380.500	1	5059380.500			
	Total		1176510476.833	5				
Units	Between Groups	(Combined)	105922356.000	4	26480589.000	32.733	.130	
		Linear Term	Weighted	71919522.067	1	71919522.067	88.900	.067
			Deviation	34002833.933	3	11334277.978	14.010	.193
	Within Groups		808992.000	1	808992.000			
	Total		106731348.000	5				

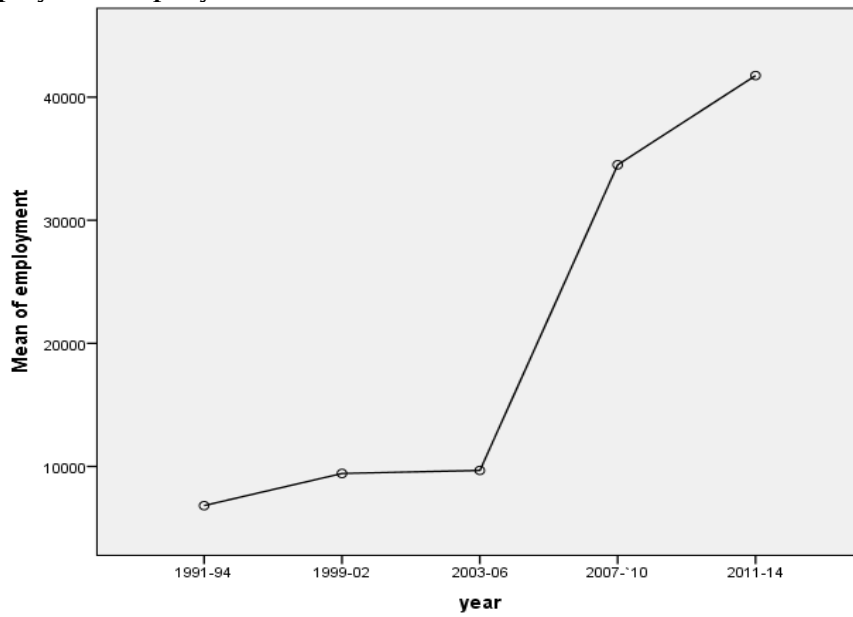
Interpretation of Analysis of Variance (ANOVA):

When the degree of freedom (df) of production, employment and units is 4 and the level of significance is 95%. The critical value of $f_{0.05}$ is more than 6.388. Since the calculated value of f- test of production is 9.955, employment is 57.885 and unit is 32.733 which are more than table value. It concludes that there is significant relationship between production, employment and units of Small Scale Industries. Hence the null hypothesis is rejected.

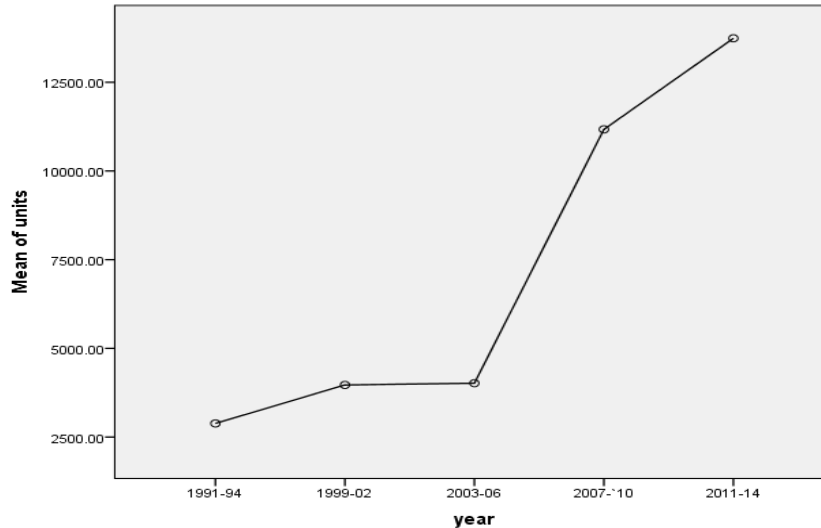
Mean of production as per year wise



Mean of employment as per year wise



Mean of units as per year wise



9. CONCLUSION

Small-scale industries has performed exceedingly well and enabled India to achieve an extensive measure of industrial growth and diversification. By its less capital intensive and high labor absorption nature, SSI has made significant contributions to employment generation and also to rural industrialization. Under the changing economic scenario especially in the era of liberalization, SSI has both the challenges and opportunities before them.

The sector is estimated to employ about 113.21 million persons in over 37.80 million units throughout the country. The production increased from 78802 crore in 1990-91 to 1689756 crore in 2013-14 at current price. Moreover, the exports increased from 9664 million to 559265 million. There are over 6000 products ranging from traditional to high tech items which are being manufactured by small industries in the country.

The small scale industries in India have increased at average annual increase of 3.79 lakh units and the average percentage in change in annual increase was 4.0093 percent. It indicates that SSI sector has made good progress as far as the number of SSI units concerned. Small scale industries in India have increased at compound growth rate of 3.7821 percent. The Study indicates that production at current prices have been increased at 1689756 compound growth rate which is really remarkable.

It is revealed from data analysis that after economic reforms the number of units had increased but the production level is not increased according to the proportionate increase in number of units during 1991-92 and 1992-93 periods. That the total number of the persons employed in this sector has gone up from 158.34 lakh persons in 1990-91 to 238.73 lakh persons in 2000-01 to 1132.1 lakh persons in 2013-14. Study found that the employment patterns have been changed at compound growth rate of 4.097.

It has been observed that units from all surveyed industries irrespective of age and turnover believed that liberalization has resulted into more competition, increased quality consciousness, difficulty in marketing, dumping of cheaper goods by other countries, reduction in profit margin and high level of customer satisfaction. But units from food products, beverages and leather and leather products believed that new opportunities have come up after liberalization. Small units are not using latest machinery to manufacturer quality product with latest design as per international standards. There is absence of clear policies relating to marketing and human resource management. Most of the units do not have separate marketing and human resource departments. Small manufacturers are unable to attract the professionals because of their financial limitations. Units operating at small level are lacking behind in obtaining relevant international quality certification which is restricting their entry into foreign markets. Small entrepreneurs are not advertising their products through electronic and print media which further limits their market coverage.

10. RECOMMENDATIONS

Based on this study' analysis and results, the following recommendations may contribute to increasing the role of development of small scale industries in the Indian economy.

- Establishing government welfare centers in all districts in India to provide the needed services and facilities to small scale industries in order to increase their role in the economic development of the Indian economy.
- Developing strong relations between small and large firms. One of the major objectives of this scheme would be to provide reliability information by large scale industries to the small scale industries about new methods of marketing and how to participate in the international market.
- The financial infrastructure is needed and an adequate inflow of credits
- Limiting the establishment of small scale industries to designated industrial areas for better monitoring and periodic surveys, enabling the Ministry of Industry to make policy corrections from time to time.
- Increasing exports of small-scale industries with government aid by exhibiting their productions in International Exhibitions.
- To reap the benefits of SSI Indian policy and decision makers have to enact and enforce the employment of Indian workers in the SSI.

REFERENCES

- [1]. Abdullah, S. Sheikh. (2014). Impact of globalization on entrepreneurial enterprises in the Indian markets. *Journal of Management and Enterprise Development*, Vol. 2, pp. 46-64.
- [2]. Agreement (SAFTA) on Pakistan Economy by using CGE model. *Journal of International Trade Law and Policy*, Vol. 8(3), pp 227-251.
- [3]. Anderson, K., Dimaranan, B., Hertel, T. & Martin, W. (1997). Economic growth and policy reform in the Asia-Pacific: trade and welfare implications. *Asia-Pacific Economic Review*, Vol. 3(1), pp 1-18.
- [4]. Anga, Rose Mary. (2014). Trade liberalization and small and medium sized enterprises (SMEs) failures in Nigeria. *Review of African economies*, Vol. 3(3), pp87-93.

- [5]. Aw, B. Y., M. Roberts and X. Chen (2001). Firm-Level Evidence on Productivity Differentials and Turnover in Taiwanese Manufacturing. *Journal of Development Economics*, Vol. 2(1), pp 123-134.
- [6]. Bernard, A. B., J. Eaton, J. B. Jensen, and S. S. Kortum, (2003). Plants and Productivity in International Trade. *American Economic Review*, 93(4), pp. 1268-1290.
- [7]. Bernard, A. B., S. Redding and P. K. Schott. (2007). Comparative advantage and Heterogeneous Firms. *Review of Economic Studies*, Vol. 73(1), pp. 31-66.
- [8]. Bonaccorsi, A. (1992). On the relationship between firm size and export intensity. *Journal of International Business Study*, Vol. 23(4), pp 605–635.
- [9]. Boston, R.C. (2013). Reasons for panic in all India census report on small scale industries. *Journal of Developing Economies*, Vol. 67, pp. 229-235.
- [10]. Burange, L.G. and Shruti Yamini. (2011). A Review of India's Industrial Policy and Performance. Working Paper. No. UDE 34/1/2011, Department of Economics, University of Mumbai, January.
- [11]. Clerides, S., S. Lach, and J. Tybout. (1998). Is Learning by Exporting Important? Micro-Dynamic Evidence from Columbia, Mexico and Morocco. *Quarterly Journal of Economics*, 113, pp. 903-47.
- [12]. Faiz, M. Shaikh. (2009). Analysis of bilateral trade liberalization and South Asian Free Trade Agreement (SAFTA) on Pakistan Economy by using CGE model. *Journal of International Trade Law and Policy*, Vol 8(3), pp. 227-251.
- [13]. Gabriel, Baffour. Awuah and Mohamed Alam. (2011). Impact of Globalization: The ability of less Developed Countries (LDC's) firms to cope with Opportunities and Challenges. *European Business Review*, Vol 23(1), pp. 120-132.
- [14]. Hsin Chang Lu, March. (2000). International Competition and Wage Differentials – The Case of Taiwan. *Journal of International Trade and Economic Development*, 9:1, pp.101-114.
- [15]. Kalchetty, Eresi. (2008). Policies and practices of producers in small units. *Journal of Social Research and Development Sciences*, Vol. 2(1), pp 38-46.
- [16]. Kulkarni, Yogesh Madhukarrao. (2011). Role of SSI in Employment Generation. *Southern Economist*, Vol. 50(8), August 15, pp 11.
- [17]. Madeley, J. (2000). Trade and Hunger: An Overview of Case Studies on the Impact of Trade Liberalization on Food Security. Available: www.forumsyd.se (accessed 20 May 2006).
- [18]. Manbula, C. (2002). Perceptions of SME Growth Constraints in Nigeria. *Journal of Small Business Management*, Vol. 40, pp. 58-65.
- [19]. Mathew. P.M. (2009). The SME Sector-A Golden Chance in the Waiting. *The Hindu Survey of Indian Industry*, pp. 57-64.
- [20]. Michael, Enowbi-Batuo and Milambo. Kupukile. (2010). How can Economic and Political liberalization improve Financial Development in African Countries. *Journal of Financial Economic Policy*, 2(1), pp. 35-59.
- [21]. Ministry of Micro, Small and Medium Enterprises (2014): Annual Report 2013-14, Government of India, New Delhi.
- [22]. Modi , Satish. (2014). Problems and Prospects of Indian Small Scale Industries, An International Open Free Access, Vol.1(3), pp171-225.

- [23]. Nag, Biswajit (2000). WTO Regime and Its Implications for Indian Small and Medium Enterprises Sector. *Sedme*, Vol. 27(3), pp. 1-17.
- [24]. Obokoh, Lawrence Ogechukwu. (2008). Small and Medium Sized Enterprises Development under Trade Liberalisation: A Survey of Nigerian Experience. *International Journal of Business Management*, Vol 3(12), pp.92-101.
- [25]. Pavcnik, N. (2002). Trade Liberalization, Exit, and Productivity Improvement: Evidence from Chilean Plants. *Review of Economic Studies*, Vol. 69(1), pp. 245-76.
- [26]. Popli, Gurleen . K. (2010). Trade Liberalization and the Self Employed in Mexico. *World Development Journal*, Vol.38(6), pp. 803-813.
- [27]. Rathod, C. B. (2007). Contribution of Indian Small Scale Entrepreneurs to Economic Growth in India: Opportunities and Challenges in Global Economy. *Prabandh- Journal of Management & Research*, Vol. 23, pp. 1- 12.
- [28]. S. Mohandass. (2014). Impact of Globalization on Micro, Small and Medium Enterprises In India. *Asia Pacific Journal of Research*, Vol. I(XVIV), pp. 126-138.
- [29]. Sharma, Chandan and Sanjay. Sehgal. (2010). Impact of Infrastructure on Output, Productivity and Efficiency: Evidence from the Indian Manufacturing Industry. *Indian Growth and Development Review*, Vol. 3(2), pp. 100-121.
- [30]. Subrahmanya, M.H.Bala. (2000). Small Industry Modernization in India: A Perspective of Emerging Dimensions of Needs for Finance. *Sedme*, Vol. 27(3), pp.33-43.
- [31]. Tambunan, T. T. H. (2008a). Trade liberalization effects on the development of small and medium-sized enterprises in Indonesia: A case study. *Asia-Pacific Development Journal*, Vol. 15(2), pp 35–59.
- [32]. Tambunan, Tulus (2011). The Impacts of Trade Liberalization on Indonesian Small and Medium-sized Enterprises. International Institute for Sustainable Development. Web site: <http://www.iisd.org>