

# ROLE OF SMALL SCALE INDUSTRIES PROMOTED BY TAMILNADU INDUSTRIAL INVESTMENT CORPORATION LIMITED IN SALEM DISTRICT

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## Abstract

Entrepreneur creates employment opportunities for the people of the country. Therefore, the government is taking lot of initiatives for the promotion of the entrepreneurship in the country. The potential candidates are motivating by the training institutes by providing technical support. Incentives and subsidies are provided to the entrepreneurs by the government to promote entrepreneurs. The government actively put efforts in the form of institutes, training centres, and financial corporations. The Government of India having more financial institutions for entrepreneurs' development such as SSIC, SIDCO, SIPCOT, TIIC, IIC, etc. The objective of the study is to examine the role and performance of small scale industries in Salem district. Now days most of the entrepreneurs tend to start the business in all over India. SSIs in India could not progress satisfactorily due to various problems that they are confronted with while running enterprises. The study suggests that for the sustainable growth of the small scale industries, top priority should be given to financial support to SSIs. State and central governments should facilities the growth of SSIs mainly by creating conducive environment for production and marketing of products and services.

**Key words:** Small scale industries, economic development, industrialization, etc.

## 1. Introduction

Small scale industries are important because it helps in increasing employment and economic development of India. It improves the growth of the country by increasing urban rural growth. Role of small and medium scale enterprises are to help the government in increasing infrastructure and manufacturing industries, reducing issues like pollution, slums, poverty, and many developmental activities. Small scale manufacturing industries and cottage industries play an important role in the economic development. If any amount of capital is invested in small scale industries it will help in reducing unemployment and increasing self-employment. The small scale industries is a vital constitute of Indian industrial sector. It contributes almost 40 per cent of the total industrial production and over 34 per cent of the national exports. At present, the small-scale industries are providing employment to over 40 million people.

## 2. Entrepreneurial development and financial institutions

The entrepreneurial development in a country depends on the supply of finance. India like other countries, the big and established industries can always raise money for their projects. It is, therefore, necessary to have institutions to provide industrial finance for entrepreneurs. This was the genesis of the structure for providing industrial finance which began to be set up in the country soon after the launching of the country's planning efforts. The most important characteristic of financial institutions in India is their being predominantly government controlled and regulated. Finance is present in every sphere of economic and business activities and the highly competitive world depends upon how effectively funds are gathered and utilized. Access to funds can often do away with most of the operational problems. This is because of the fact that though the requirement of credit is small, most of the entrepreneurs find gathering this amount an uphill task. The inability of small scale entrepreneurs to scout for funds results in slowing down their growth, lowering their capacity to internally generate funds, and thereby leading to lowering the retention and recycling of the same. Entrepreneurs are often forced to borrow from financial agencies to bridge this gap. After independence, starting with the establishment of Industrial Finance Corporation of India in 1948, a number of development banks have been set up at all India and regional levels for accelerating the development of large, medium and small scale industries by providing financial and development assistance.

## 3. Concept of small scale industries

Previously, the definition of small scale industries depended upon the business's capital and labour. This definition is still used to demarcate between small, medium and large-scale industries. The Central Government has the authority to determine capital investment requirements for small-scale industries. These requirements are listed under the Industries (Development and Regulation) Act. A small enterprise in which investment in plant & machinery ranges between Rs. 25 lakhs to Rs. 5 crores is a small-scale industry. Similarly, for industries that provide services, the investment requirement is between Rs. 10 lakhs and Rs. 2 crores.

## 4. Review of literature

Rohira (1999) stated that the lack of coordination among various agencies was one of the most important reasons for sickness in industry. It is important that multi agency lending to SSI should be stopped and SIDBI should become a very big venture capital organization and SSI financing agency without any intermediaries.

Vasant Desai (1999) pointed out that SFCs were playing a significant role by giving term loans and other facilities to small scale industries. In the long-run, SFCs should extend their support to the promotion of medium and large scale industries in backward areas so that this would give a

fillip to the growth of small sale industries clustered around them, creating and upgrading industrial as well as social infrastructure in these areas.

Alagappan and Ganesan (2001) observed that TITC had mobilized Rs.2257.33 crore of funds during the period from 1980-81 to 1995-96. TIIC utilized 77 per cent of the mobilized funds mainly for its repayment of refinance to IDBI, redemption of bonds and repayment of borrowing to other agencies. They have also stated that TIIC had granted 59 per cent of loans to small scale industries during 1980-1996 and the nine industrially backward districts in Tamil Nadu were benefited only with 35.72 per cent of the total financial assistance disbursed compared to the non-backward districts during the same period. The contribution of TIIC has been substantial compared to the overall average performance of all State Finance Corporations in India.

Anilkumar (2002) pointed out that SFCs should make efforts to provide loans sanctioned and disbursed to small scale sector because the problems of small scale sector were entirely different from the medium scale sector. The SFCs should make efforts to sanction the loans in a balanced manner for different purposes. More emphasis should be given to small sized category of loans because it would help in promoting entrepreneurship in the country.

Sundar, et al. (2002) stated that the role of SIDBI in providing financial assistance was generally commendable both in terms of number of schemes sanctioned and the quantum of loans disbursed over a period of eight years. The bank was mainly financing SSI through refinance and bills financing schemes. The SIDBI should widen its horizon of loan assistance to cater to diverse credit requirements of SSI units.

Alagappan and Nagammai (2003) studied the entrepreneurs' response to financial assistance from institutions. They have taken a sample of 120 small scale units in Madurai district, representing eight categories of industries. The results revealed that the small scale units have an average level of satisfaction towards the lending of financial institutions. They are satisfied with the format of the loan application and method of sanctioning loans and they are not satisfied with the quantum of loan sanctioned, high margin fixed and other service charges levied by the financial institutions.

Latha (2005) highlighted that small scale industrial sector has acquired a prominent place in the socio-economic development of the country. It has been assigned an important place commensurate with its potential for employment generation, dispersal of industry in rural areas and export promotion. To overcome the problems of small scale sector, government must provide additional facilities, schemes, incentives, and encourage innovative activities of entrepreneurs.

## 5. Statement of the problem

Small scale units are tremendously dependent on organized institutional credit instead of credit from the unorganized sectors like indigenous cash lenders and private financial organizations. Hence, institutional finance plays a crucial role in the development of small and medium enterprises. Non-availability or inadequate financing for working capital, non-availability of collateral-free loans, high cost of loans and delayed disbursements of the sanctioned loans are the main obstacles for the development of entrepreneurs. Further, the small industries are denied adequate and timely credit facilities; and therefore, losing their competitiveness, structural inadequacies and imperfections do not allow them to access equity markets.

## 6. Objective of the study

1. To study examine the role and performance of small scale industries in Salem district
2. To examine the role of small scale industries related with employment generation and resources utilization in the study area
3. To discuss the problems faced by the small scale industries
4. To suggest measures for the development of small scale industries.

## 7. Role and importance of small scale industries

India is one of the world's fastest growing economies in the world. Consequently, its production output is massive. It is pertinent to note that SSIs contribute almost 40 per cent of India's gross industrial value. These industries produce goods and services worth over Rs. 40 lakhs for every investment of Rs. 10 lakhs. Furthermore, the value addition in this output increases by over 10 per cent. As a result of this, the total industrial production output rose tremendously in the last few years. SSIs are, therefore, strongly responsible for the growth of India's economy. Apart from producing more goods and services, SSIs have been able to export them in large numbers as well. It is important to note firstly that small scale industries employ more people than all industries after agriculture. Almost four persons can get full employment if Rs. 10 lakhs are invested in fixed assets of small-scale sectors. Small scale industries offer several advantages and opportunities for investments. For example, they receive many tax benefits and rebates from the government. The opportunity to earn profits from SSIs is big due to many reasons. Apart from providing profitable opportunities, small scale industries play a large role in advancing welfare measures in the Indian economy as well. A large number of poor and marginalized sections of the population depend on them for their sustenance. These industries not only reduce poverty and income inequality but they also raise standards of living of poor people.

## 8. Problems faced by the small scale industries

In spite of having huge potential, the problems faced by SSIs are given below:

**Problem of skilled manpower:** Inefficient human factor and unskilled manpower create innumerable problems for the survival of small industries. Non-availability of adequate skilled manpower in the rural sector poses problem to SSIs

**Inadequate credit assistance:** Inadequate and untimely supply of credit facilities is the problem faced by SSIs. This is partly due to scarcity of capital and partly due to weak creditworthiness of the small units.

**Irregular supply of raw material:** Small scale units face severe problems in procuring the raw materials whether they use locally available raw materials or imported raw materials. The problems arise due to faulty and irregular supply of raw materials. Non-availability of sufficient quantity of raw materials, sometimes poor quality of raw materials, increased cost of raw materials, foreign exchange crisis and above all lack of knowledge of entrepreneurs regarding government policies are other few hindrances for the small scale sector.

**Absence of organised marketing:** Another problem faced by small scale units is the absence of organised marketing system. In the absence of organised marketing, their products compare unfavourably with the quality of the product of large-scale units. They also fail to get adequate information about consumers' choice, taste and preferences of the type of product.

**Lack of machinery and equipment:** Small scale units are striving hard to employ modern machineries and equipment in their production process in order to compete with large industries. Most of the small units employ outdated technology and equipment. Lack of appropriate technology and equipment creates a major stumbling block for the growth of SSIs.

**Absence of adequate infrastructure:** Most of the small scale units and industrial estates found in towns and cities are having one or more problems like lack of power supply, water and drainage problem, poor roads, raw materials and marketing problem. Thus absence of adequate infrastructure adversely affects the quality, quantity and production schedule of the enterprises which ultimately results in underutilisation of capacity.

**Competition:** Small scale units find it very difficult to compete with the product of large scale units and imported articles which are comparatively very cheap and of better quality than products manufactured by small scale units.

Besides the above problems, small scale units have been constrained by a number of other problems which include poor project planning, managerial inadequacies, old and orthodox designs and

high degree of obsolescence. Due to all these problems, the development of SSIs could not reach a prestigious stage.

## 9. Conclusion

Small scale units contribute to the increase of industrial productivity and rise of national exports, generating more employment opportunities. This sector contributes very impressively to the GDP. In view of this, the government of India has rightly recognised the SSIs as the engine of growth for the present millennium. For sustainable growth of the small scale industrial sector, top priority should be given to financial support. State and central governments should facilitate the growth of SSIs mainly by creating conducive environment for production and marketing of products and services. Small scale sector has emerged as a dynamic and vibrant sector of Indian economy.

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