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IMPACT OF SMALL SCALE INDUSTRIES ON THE DEVELOPMENT OF ECONOMY

Manju

Assistant professor in commerce, Govt. College, Meham, Haryana, India

ABSTRACT

Small scale industries play a vital role in the development of economy, mainly in developing countries. If population of India is taken into consideration it can be said that this sector has a wide scope in India. If small scale industrial sector is developed other economy related problems can be dissolved automatically. But these have to face so many problems while competing with other large scale industries. If these problems are solved or efforts are taken to foster these challenges this sector can prove itself as a developing engine.

Keywords: *Medium and small scale industries, growth rate, promotion.*

INTRODUCTION

Lack of capital, excessive dependence of agriculture and abundant supply of manpower are the characteristic features of many developing countries in Asia. Happily these economies have been realizing that agriculture is which cannot meet their local requirements and therefore, that the pressure on land could be substantially reduced through the development of small scale industries. Small scale is the most suitable type of the developing countries. The role of industries is also one of the characteristics and has different types of units functioning in the fold of an economy. Therefore, the present study through some light on their problems.

Financial evaluation is the process of determining the objectives, policies and procedures relating to the financial activities of an organization. It involves the preparation of plans for the procurement, investment and administration of funds.

It consists of the following activities:

- i. Developing the financial objectives of the enterprise on the basis of overall objectives.
- ii. Estimating the amount of capital required for different needs of the enterprise.
- iii. Designing the capital structure i.e. the form and proportion among securities.
- iv. Formulating policies relating to borrowing, cash control, administration of funds etc.

In the small-scale industries, on an average 80 percent owner-managers gave answer in 'yes' to the question regarding making financial plan. In auto-parts industry, 93 percent units followed by Electronics industry 90 percent, garments industry 89 percent, others industries 75 percent, Rubber and plastic industry 72 percent and in metal products industry 67 percent units were found to be making financial evaluation. The auto-parts industry, due to large size of units and intense competition is compelled to undertake financial planning. On the other hand, in metal

products industry, due to maximum small units in the industry, the financial evaluation is done by a small percentage of units. Regarding financial evaluation of small-scale industries, the researcher observed that the percentage of industries doing proper financial planning is much less than mentioned.

ANALYSIS

Table 1 TIME SPENT ON FINANCIAL EVALUATION IN SMALL-SCALE INDUSTRIES

Name of Industry	Less than a week		7-15 days No. %		15-30 days No. %		Total No.
	No.	%	No.	%	No.	%	
Garments	57	75.0	19	25.0	-	-	76
Auto-parts	37	92.5	3	7.5	-	-	40
Electronics	42	79.2	11	20.8	-	-	53
Metal Products	48	100.0	-	-	-	-	48
Rubber & Plastics	42	35.5	2	4.5	-	-	44
Others	53	79.1	9	13.4	5	7.5	67
Total	279	85.1	44	13.4	5	1.5	328

Out of them 54 percent industries are performing evaluation criteria for a month and 31.7 percent industries for six months. That is why, 85.1 percent industries are spending less than a week on evaluation.

In other industries, only 7.5 percent units spend 15 to 30 days on planning which is just 1.5 percent of the total industries. As far as industry-wise analysis is concerned in metal products industry 100 percent, in Rubber and Plastic industry 95.5 percent followed by auto-parts industry 92.5 percent, electronics industry 79.2 percent, Others industry 79.1 percent and in garments industry 75 percent units are spending less than a week on evaluation.

PROFIT EVALUATION IN SMALL-SCALE INDUSTRIES

In simple terms, profit evaluation means assessing the long-term future earnings of the

company. So, the profit plan is basically an indication on the part of the firm's owners as to their profit goals.

Most of the units are making financial evaluation in an unwritten and informal manner. In small-scale industries, 85 percent units are making financial evaluations without taking the help of experts. In small businesses, not much time is spent on financial evaluation. It is observed that 39.3 percent industries are doing planning in writing and 42.7 percent are making plan in unwritten form.

In other words, the evaluation is basically an indication of management's perception as to know what's the organization has got. Is it in any loss or not? If it is evaluated that the company is not getting to much profit from its policies and activities, then it tends to change the policies and new strategies are developed so as to attract more and more customers.

On the other hand, if it is evaluated that the company is in profit status then it continues with the current policies. In some cases, a rare alteration in the company policies is observed in case of the company is getting profit.

In small-scale industries, it is observed that 61 percent industries get profit as a result of their good policies. On the other hand, the

remaining 39 percent of industries cannot get so much profit.

In some cases, it is observed that the companies could not recover their expenditures and failed to survive. Major

losses have to suffer by these industries. So, an industry must concentrate on making good policies and implementing them properly in order to survive in this competitive world and gain profit.

TABLE 2 PROFIT EVALUATIONS IN SMALL-SCALE INDUSTRIES

Name of Industry	YES		NO		Total No.
	No.	%	No.	%	
Garments	52	65.0	28	35.0	80
Auto-parts	30	75.0	10	25.0	40
Electronics	40	66.7	20	33.3	60
Metal Products	30	38.5	48	61.5	78
Rubber & Plastics	36	64.3	20	35.7	56
Others	56	65.1	30	34.9	86
Total	244	61.0	156	39.0	400

TOOLS USED IN FINANCIAL EVALUATION OF SMALL SCALE INDUSTRIES

Break even analysis tool is used to evaluate financial profit in many industries. It checks the overall cost of products sold and total selling and buying price. The relationship between cost of production, volume of production, the profit and the sales value is established by this tool.

After evaluation, an industry is said to be in profit, if it recovers its cost of production and sells almost all of its products. That kind of

company is also said to be in some kind of profit status.

On the other hand, after the analysis, if it is found that the industry has not been able to recover its production cost then it is said that the industry is in some loss and appropriate steps are taken by the top management of the industry in order to recover from these kind of losses if happened.

Table 3 shows that out of the total units which are making profit, only 18.8 percent units are using tool in evaluating their profits.

TABLE 3 USES OF TOOLS IN PROFIT EVALUATION IN SMALL-SCALE INDUSTRIES

Name of Industry	YES No. %		NO No. %		Total No.
	No.	%	No.	%	
Garments	9	17.3	43	82.7	52
Auto-parts	8	26.7	22	73.3	30
Electronics	7	17.5	33	82.5	40

Metal Products	4	13.3	26	86.7	30
Rubber & Plastics	6	16.7	30	83.3	36
Others	12	21.4	44	78.6	56
Total	46	18.8	198	81.2	244

Even there, the auto-parts industry is the leading one with 26.7 percent units, 21.4 percent of other industries use profit analysis.

SALES EVALUATION IN SMALL-SCALE INDUSTRIES

The reliability of the profit plan as well as other financial evaluation is largely dependent on the accuracy of the sales evaluation. In the large firms, sales evaluations are prepared by the marketing department or by any other staff.

But, in small-scale industries, normally cannot afford to have separate department for sales

evaluation. In small firms, owners or managers evaluate the sales.

Table 4 shows that in small-scale industries, 67.7 percent industries prepare sales evaluation. In auto-parts industry, maximum number of units with 75 percent units followed by electronic industry 70 percent units, in rubber and plastic industry 67.9 percent units, in garments industry 67.5 percent units, in other industries 66.3 percent units and in metal products industry 64.1 percent units evaluate sales to get better scenario and status of industry.

Table 4 SALES EVALUATION IN SMALL-SCALE INDUSTRIES

Name of Industry	YES		NO		Total No.
	No.	%	No.	%	
Garments	54	67.5	26	32.5	80
Auto-parts	30	75.0	10	25.0	40
Electronics	42	70.0	18	30.0	60
Metal Products	50	64.1	28	35.9	78
Rubber & Plastics	38	67.9	18	32.1	56
Others	57	66.3	29	33.7	86
Total	271	67.7	129	32.3	400

SALES FORECASRING IN SMALL-SCALE INDUSTRIES

The reliability of the profit evaluation as well as other financial evaluation is largely dependent upon the accuracy of the sales forecast. In the large firms, sales forecasts are prepared by the marketing department or by any other staff.

But, in a small-scale industry, normally, cannot afford to have a separate department for the sales forecast. In small firms, owners or managers evaluate the sales.

Table 5 shows that in small-scale industries, 67.7 percent industries prepare sales forecast. In auto-parts industry, maximum number of units with 75 percent units followed by electronic industry 70 percent units, in rubber and plastic industry 67.9 percent units, in

garments industry 67.5 percent units, in other industries 66.3 percent units and in metal products industry 64.1 percent units forecast sales to get better scenario and status of industry. Table 5 also shows that the

percentage of industries in different field which are not forecasting sales. On an average one industry out of three in every field is not forecasting sales. This category includes either the smallest units or stable units.

Table 5 SALES FORECADTING IN SMALL-SCALE INDUSTRIES

Name of Industry	YES		NO		Total No.
	No.	%	No.	%	
Garments	54	67.5	26	32.5	80
Auto-parts	30	75.0	10	25.0	40
Electronics	42	70.0	18	30.0	60
Metal Products	50	64.1	28	35.9	78
Rubber & Plastics	38	67.9	18	32.1	56
Others	57	66.3	29	33.7	86
Total	271	67.7	129	32.3	400

In small-scale industries, most of the units are not making proper evaluations for the company. Only in large units of small sector evaluation is done properly. Most of the small firms' owners or managers do not know the proper meaning of financial evaluation.

As far as profit evaluation is concerned, in small firms, majority of them, evaluate the profits. But, the important tool of profit evaluation is used only by few of the large-scale industries.

In small sector, two-third industries forecast their sales for the future. The main basis for sales forecasting in this sector is judgement. Mathematical techniques and quantitative models are used only by large units, but their number is negligible. Expenses are also forecast by majority of units on the basis of past experience.

In this way, it is observed that financial evaluation is so important for the small-scale industries so as to get proper status of the firm. Also, by using this methodology, an owner can

get an idea about the goods and bads of his/her firm.

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