International Journal of Advances in Engineering and Management (IJAEM)
Volume 5, Issue 7 July 2023, pp: 562-567 www.ijaem.net ISSN: 2395-5252

An Analysis into the Causes of Failure of Small-Scale Industries in India

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Date of Submission: 10-07-2023 Date of Acceptance: 20-07-2023

ABSTRACT:
Small-scale industries (SSIs) help India's economy by creating jobs, industrial production, and rural development. Though promising, many Indian SSIs fail and close. This abstract analyses small-scale Indian industry failures from a systemic and structural viewpoint. This research reveals numerous reasons that cause Indian SSIs to fail based on available literature. Internal and external variables combine to exacerbate small-scale industry issues. SSIs generally lack financial management, strategic planning, and market research. Their productivity and competitiveness are further hampered by limited trained personnel, technology, and contemporary industrial practises. SSIs also face poor electricity, transportation, and credit infrastructure. Small businesses confront government rules and restrictions. Inconsistent and onerous taxation rules, complicated regulatory frameworks, and bureaucratic roadblocks hinder SSI compliance and growth. Variations in raw material pricing, fierce rivalry from large-scale companies, and insufficient marketing and distribution networks impede SSI expansion. These reasons of failure are interrelated and impacted by larger contextual variables. Social inequality, lack of education and skills, and geographical differences make SSIs more vulnerable. Inflation, interest rates, and trade policies all influence the business climate, which affects small-scale enterprises. Failure reasons demand a multi-dimensional approach. Policymakers should streamline laws, provide financial assistance, and improve access to skilled labour and technology for small businesses. Infrastructure development, cluster-based industrialisation, and SSI-larger company links may boost competitiveness. Targeted skill development, inclusive policies, and fair regional development may also help SSIs survive.

Keywords: Financial mismanagement, Lack of strategic planning, Inadequatemarket research, Limited access to skilled labour, Technology constraints, Inefficient manufacturing techniques

I. INTRODUCTION

The Indian economy relies on small-scale industries (SSIs) for employment, industrial production, and rural development. Manufacturing, textiles, handicrafts, and agro-processing are among the industries served by these small businesses. Small-scale enterprises in India fail and close, hindering economic progress and social well-being. Systemic and structural elements must be examined to understand small-scale industry failure. This abstract analyses small-scale Indian industry failures beyond superficial issues. We may understand the complicated dynamics and interdependencies by evaluating the internal and external reasons that caused their collapse. Small businesses generally struggle with poor financial management, strategic planning, and market research. These issues limit resource optimization, market adaptation, and company decision-making. In a worldwide economy, limited access to trained personnel, technology, and advanced manufacturing processes hinders productivity and competitiveness. Small-scale enterprises also struggle with unstable electricity, poor transportation, and restricted finance.

Small businesses encounter several government rules and policies. Inconsistent and onerous taxation rules, complicated regulatory frameworks, and bureaucratic roadblocks make compliance and growth difficult for these firms. Small-scale enterprises also face raw material price changes, severe rivalry from large-scale industries, and a lack of marketing and distribution networks, restricting their market reach and development potential. These failures are interconnected. They are linked to contextual variables that make small-scale enterprises vulnerable. These firms also

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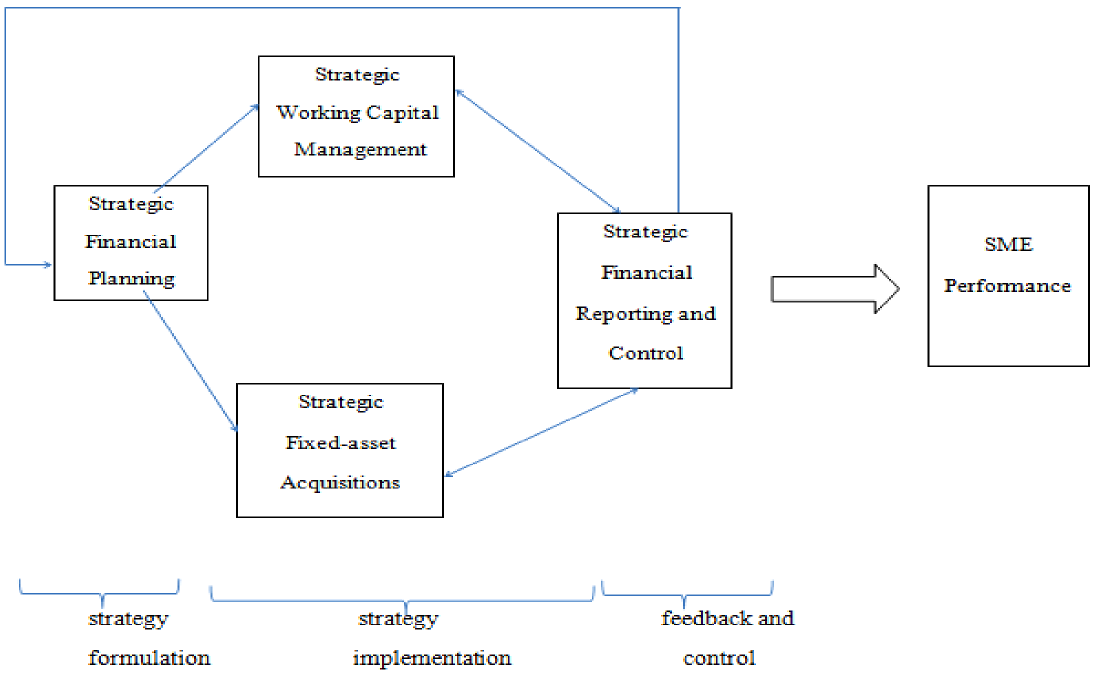
confront socio-economic issues including lack of education and training, social inequity, and geographical differences. Macroeconomic issues like inflation, interest rates, and trade policy affect the business climate, which affects small-scale enterprises. Small-scale industry failures need a multi-dimensional strategy. These firms need simplified rules, financial backing, and access to trained personnel and technology from policymakers. Infrastructure development, cluster-based industrialisation, and small-scale-large company connections may boost SSI competitiveness. Targeted skill development initiatives, inclusive policies, and fair regional development may help India's small-scale companies survive. We can discover small-scale industries' development and success barriers by critically studying their failures from a more abstract viewpoint. India can empower small-scale companies and boost inclusive economic growth, job creation, and livelihoods by tackling these obstacles and adopting relevant legislative measures.

Inadequate Financial Management: A Major Obstacle for Small-scale Industries

Indian small-scale businesses (SSIs) struggle with poor financial management. These companies have minimal resources and money, making financial management difficult. Sustaining operations, maximising growth, and guaranteeing long-term sustainability requires good financial processes. Financial mismanagement may lead to company failure and closure. Indian small-scale enterprises provide jobs, industrial production, and economic growth. These businesses serve specialised markets or particular regions. Their existence and expansion depend on wise financial decisions and resource allocation, notwithstanding their enormous potential. Small businesses collapse due to poor financial management. Small-scale entrepreneurs sometimes lack financial expertise, making financial management difficult. They struggle with budgeting, cash flow management, expense control, and financial reporting, which are essential financial management skills. Financial mismanagement has many repercussions. Overspending due to poor planning might leave inadequate cash for crucial operating needs, technology or infrastructure investments, and working capital. Poor cash flow management worsens this issue, affecting liquidity and operations. Poor cost management may increase expenditures, lower profit margins, and lower competitiveness. Small businesses cannot analyse their financial health, make educated business choices, or attract investors or lenders without accurate and timely financial reporting. Lack of financial transparency reduces stakeholder trust, restricting access to loans and other financial resources needed for development and expansion.



Financial Management Challenges in Small and Medium-Sized Enterprise
Source: Karadag, Hande. (2015).

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Financial tools and resources are also difficult for small businesses. Small businesses can't invest in new technology, infrastructure, or operations without accessible finance. These companies' financial difficulties are exacerbated by high lending rates and collateral requirements. Financial literacy training and support are lacking, leaving small-scale company owners unable to negotiate the complicated financial world. A multi-stakeholder strategy is needed to fix small-scale industries' poor financial management. Financial literacy and accessible training programmes for businesses must be prioritised by policymakers. Financial institutions should customise microfinance and working capital loans to small-scale enterprises' requirements. Small-scale business owners may learn financial management best practises by creating a supportive environment that encourages mentoring and information exchange. Financial advising services, mentorship programmes, and seminars to improve financial management may be provided by industry groups, government authorities, and financial institutions working together. India's small-scale enterprises struggle with poor financial management. Financial knowledge, specific financial solutions, and a supporting environment for small-scale sector owners are needed to address this difficulty. India can unleash the full potential of small-scale companies by equipping them with financial management skills and resources, boosting their growth, economic development, and job creation.

The Impact of Limited Strategic Planning on the Viability of SSIs

Indian small-scale industries (SSIs) depend on strategic planning. It guides these companies toward their objectives, market dynamics, and competitive challenges. SSIs' insufficient strategic planning affects their capacity to handle business challenges, grasp opportunities, and reduce risks. This article examines how restricted strategic planning affects SSI viability and stresses the need of strategic planning for their development and competitiveness. India's small-scale enterprises provide jobs, industrial production, and regional development. These companies must anticipate changes and allocate resources in dynamic and competitive marketplaces. Strategic planning helps SSIs examine market trends, define their unique value propositions, establish realistic goals, and create executable strategies. Small businesses suffer from poor strategic planning. SSIs are more vulnerable to market volatility and competitive pressures without a defined strategic direction. Without a plan, they are subject to reactive decision-making, making it difficult to capture new opportunities or adjust to client preferences or market developments. Limited strategic planning impacts resource allocation and use. Small businesses may struggle to prioritise investments, deploy funds, and maximise resources without a strategy. This may lead to underutilised finances, inefficient operations, and lost development and expansion prospects. SSIs can't manage risk without strategic planning. Strategic planning helps companies foresee problems, manage risks, and create backup strategies. Small-scale enterprises may be vulnerable and less resilient to unforeseen occurrences like economic downturns, supply chain interruptions, and regulatory changes without a planned strategy.

Figure: The importance of strategic planning

Source: Michael Del Pero 2013

SSIs cannot maintain competitive advantages with inadequate strategic planning. A strategic plan helps small businesses stand out by leveraging their strengths, finding specialised markets, and creating new goods and services. Strategic clarity helps SSIs communicate their value offer and develop a strong market position. Promote strategic planning to improve SSI viability. Small business owners and entrepreneurs should value strategic thinking and spend time and money on strategic planning. Market research, industry trends analysis, creating goals, and action plans are required. Government, industry, and business development groups may help SSIs plan strategically. They provide strategic management training, seminars, and mentoring. SSIs may also benefit from their peers' strategic approaches by promoting cooperation and knowledge-sharing in the small-scale industrial ecosystem. Indian small-scale enterprises struggle with poor strategic planning. Strategic planning and the right tools and expertise may help SSIs negotiate market uncertainties, allocate resources, reduce risks, and develop lasting competitive advantages. Small-scale enterprises may boost economic growth, job creation, and industrial development in India by planning strategically.

Insufficient Market Research: A Roadblock to Small-scale Industry Success

Insufficient market research hinders Indian small-scale industries (SSIs) development. Understanding client wants, market dynamics, and competition requires market research. It helps SSIs make business choices, build focused marketing strategies, and produce goods and services that connect with their target customer. SSIs struggle to find market possibilities, fulfil consumer requests, and remain ahead of the competition due to a lack of market research. This article investigates how inadequate market research affects small-scale companies and emphasises the significance of thorough market research for their development and competitiveness. India's small-scale enterprises provide jobs, industrial production, and entrepreneurial growth. These companies operate in varied marketplaces with distinct features, client preferences, and competitive dynamics. Market research helps SSIs understand their target markets, consumer demands, and product and service offerings. SSI market research is inadequate.

SSIs may fail to spot developing trends, shifting client preferences, and changing market dynamics without a strong grasp of their target markets. They may miss possibilities for innovation, fail to adjust to changing customer expectations, or neglect niche areas that may drive development. Poor market research hinders SSIs' market positioning. SSIs must understand their rivals' unique selling propositions to stand out in the market. SSIs may struggle to explain their value offer and compete with bigger competitors without a complete awareness of their competitive environment. Insufficient market research affects SSI product development and marketing. Market research helps designers create goods and services that meet client demands, preferences, and pain spots. SSIs may fail if they don't understand their target consumers' needs. Poor market research hinders pricing plans. SSIs must understand consumer value perceptions, competitive pricing benchmarks, and pricing elasticity to determine profitable, market-competitive prices. Without this knowledge, SSIs may undervalue or overprice their products/services. SSIs must emphasise extensive market research to overcome inadequate market research. This involves defining target client categories, examining their requirements and preferences, monitoring industry trends, and assessing competition. Surveys, focus groups, and interviews may give consumer insights, while secondary research utilising existing data sources and industry studies can provide market perspectives. Government, industry, and business development groups may help SSIs perform market research. They may supply market research tools, databases, and training to small-scale industry owners. SSIs may use academic knowledge and resources for market research by collaborating with academic institutions.

Skilled Labor Shortage: Implications for Small-scale Industries

Indian small-scale industries (SSIs) are severely hampered by a skilled workforce shortage. Skilled labour boosts industry productivity, innovation, and competitiveness. SSIs struggle to satisfy production goals, embrace new technology, and compete in a fast-changing economic environment due to a shortage of trained people. This article discusses the effects of skilled labour shortages on small-scale enterprises and the need to solve them to guarantee their development and economic contribution. Small-scale enterprises are crucial to India's industrial ecosystem, creating jobs, economic growth, and inclusive growth. These companies work in manufacturing, textiles, agro-processing, and handicrafts. SSIs depend on qualified workers with technical skills, specialised knowledge, and practical experience. SSIs are affected by a skilled labour shortage. First, shortage of trained staff restricts output and consumer

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orders. Unskilled labour may cause production bottlenecks, delays, and lost commercial opportunities.

Unmet market demand may lead to consumer dissatisfaction, market share loss, and income loss. Skilled labour shortages prevent SSIs from adopting sophisticated technology and production methods. Sophisticated equipment, automation systems, and digital tools need skilled employees. SSIs may struggle to harness technology advances without competent personnel, resulting in inferior efficiency, quality control, and competitiveness compared to their industry peers. Skilled labour shortages slow SSI innovation. Skills drive creativity, problem-solving, and product creation. SSIs use their experience and creativity to create new products, enhance processes, and find new markets. SSIs may struggle to develop, adapt to client demands, and capitalise on market changes without skilled workers. Skill shortages also raise wages. To recruit and keep competent people, organisations must pay more. This may raise SSI labour costs, limiting company margins and preventing them from investing in infrastructure, research, and marketing. Several methods may alleviate skilled labour shortages. Industry-specific training programmes and vocational courses may be developed via SSI, government, and educational collaboration. These programmes may train people for SSIs, creating a talent pool.

Manufacturing Techniques in Small-scale Industries: Challenges and Opportunities

Indian small-scale industries (SSIs) depend on manufacturing methods. Manufacturing methods affect product quality, efficiency, and cost. Due to different restrictions, small-scale enterprises generally struggle to adapt contemporary production practises. This article discusses SSIs' manufacturing constraints and advanced manufacturing technology's benefits. SSIs may boost productivity, quality, and market share by tackling these issues and embracing opportunities. India's small-scale enterprises provide jobs, rural development, and economic progress. These companies work in textiles, handicrafts, agro-processing, and engineering. SSIs must use proper manufacturing methods to maximise output, save costs, and satisfy customers. SSIs encounter various production issues. They can't afford new technology, equipment, and automation systems. Smaller companies may lack the money to invest in and maintain innovative production technology. SSIs struggle to find trained workers and technical competence to run sophisticated production equipment. SSIs struggle to find sophisticated manufacturing-trained staff. Modern machines and technology cannot be used effectively without specific expertise and experience. SSIs may struggle to fully use sophisticated manufacturing processes due to economies of scale issues.

Lower production volumes and resource inefficiency may increase per-unit costs and inefficiencies. Modern manufacturing processes may help SSIs compete despite these limitations. Robotics, automation, and digitalization may help SSIs optimise production, enhance efficiency, and save costs. To satisfy consumer expectations and stay competitive, these technologies provide precise control, shorter production cycles, and improved quality control. Digital technology and data analytics help SSIs improve inventory management, supply chain coordination, and real-time insights. Digital transformation may help SSIs meet market needs faster, cut lead times, and boost operational efficiency. Modern manufacturing processes may help SSIs expand their product offerings, reach new markets, and meet changing client demands. SSIs may personalise goods, adjust to market variations, and provide unique value propositions by adopting production flexibility and agility. Manufacturing processes provide problems and possibilities. SSIs may invest in new gear and equipment with government financial help, subsidies, and incentives. Knowledge sharing, technical training, and research and development resources may benefit from SSI-academic collaboration. Industry associations and business development groups may help SSIs learn from successful case studies and manufacturing best practises through mentoring, advising, and networking.

Challenges for Small Scale Manufacturing Industries (SMIs) in India
Source: Sangita G 2014

II. CONCLUSION:

Indian small-scale enterprises fail due to a complicated mix of internal and external variables. SSIs struggle with poor financial management, strategic planning, and market research. Poor resource allocation, reactive decision-making, and failure to adjust to market changes reduce competitiveness. Government policies including uneven taxes, complicated regulatory frameworks, and bureaucratic roadblocks hinder SSIs. These issues hinder investment, development, and compliance. Raw material price volatility, fierce rivalry from large-scale companies, and insufficient marketing and distribution networks impede SSI expansion. Socio-economic and macroeconomic issues make small-scale companies vulnerable. Social inequalities, geographical inequities, and limited education and training hamper SSI skill development. Inflation, interest rates, and trade policies can affect SSI viability. Comprehensively addressing failure reasons is necessary. To help SSIs conduct business, policymakers should streamline laws, provide financial assistance, and enhance access to skilled personnel and technology. Infrastructure development, cluster-based industrialisation, and SSI-larger company links may boost competitiveness. Addressing socio-economic issues and sustaining SSIs requires targeted skill development programmes, inclusive policies, and fair regional development.

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