CHAPTER IV
ECONOMIC IMPLICATION OF SMALL SCALE SECTOR

Small industrial organisations are not of recent origin in India. The traditional village, cottage and handicraft industries date back to very early times while "many of the small industries now existing were started during War and post-war years when sellers market existed for their products..."¹ Till very recently these units have been in a stagnant position, many even facing a crisis, deteriorating in output and in employment, whereas their counterparts in developed countries have made rapid progress and play a very important role in the industrial economies of those nations. The small industries inherently suffer from certain handicaps, viz., inability to command efficient management, lack of capital, tax problems and the unfair use of power by larger competitors.² Deficiencies in methods of production, lack of adequate finance and proper management as well as marketing facilities are considered to be some of the factors that have contributed to the slow progress in the development of these industries in India.³ Many of

¹ Report of the Committee on Finance for the private sector Reserve Bank of India (CFPS Report, RBI) Bombay, 1954, p.80
² Fiscal Commission Report, 1949-50, Govt. of India, p.102
³ NSIC's Administration Report, 1956-57, Govt. of India, p.2

* DATA AND INFORMATION PRESENTED IN THE CHAPTER ARE PRIMARY COLLECTED BY THE RESEARCHER DURING THE FIELD VISIT.
these small industries that came into existence during the inter-war and post-war periods were in general under-capitalised.\(^1\) Further, the workers in these industries "have been suffering through their illiteracy and general backwardness, the inaccessibility to them of raw materials in time and at prices within their means over and above the lack of marketing facilities, the lack of capital and the lack of transport facilities."\(^2\) Further to quote the Ford Foundation Team's Report,\(^3\) many small industries are now (1955) facing a crisis, deteriorating in output and in employment. There are several reasons for this deterioration and the slow rate of their progress; too little initiative on the part of the private sector, too great reliance upon Government to take action and upon Government purchasing orders, outdated production and marketing methods, lack of better raw materials, lack of better designs, lack of better finish, lack of better power facilities, lack of proper credit facilities and finally lack of systematic approach towards improvements. The team's major impression is that the basic causes of present deficiencies in small industry

\(^1\) CFPS Report, RBI, Bombay, 1954, p.80

\(^2\) Bi-annual Report - AIHB, 1952-54, Govt. of India, p.5.

are methods of management and production which fall far short of meeting modern demands for efficiency; plus reluctance or failure to adopt improved rationalised methods. Most of these industrial units suffer from lack of proper factory space to run their workshops and generally they are housed in rented premises often in crowded and unhealthy localities. The factory accommodation may be either dilapidated residential building or a tiny plot in a stinking slum (in city-urban areas) often at uneconomic rent.'¹ These industries cater to particular type of fashions, tastes or requires a variety of skills and techniques involving relatively little mechanisation, and supplies relatively small markets.² These industries dispose of a abundant labour, working long hours at low wages, as well as of part-time manpower.

Even in the industrially advanced countries also, the small scale industries are not entirely free from such of these complicated and delicate problems. To quote Mr. Yuzi Koyama, President, Smaller Enterprise Agency (1948),

¹ Small Industries Bulletin, No.6, p.1, Aug.1958, Govt. of India.
Ministry of International Trade & Industry, Tokyo, Government of Japan, despite the important role they are playing in the national economy of Japan, smaller industries are suffering from a number of difficulties. For instance, the existence of an excessive number of smaller industries and the subsequent overcompetition, the instability of their business and their financial disadvantages, their lower standard of technique and their outdated management methods based on experience and knowledge which result in lower productivity and lower standards of living; all these factors together prevent them from being prosperous.¹

Taking into consideration the foregoing situation of the small scale industries and their importance in the national economies, the Government in different countries are endeavouring to solve the problems mentioned above. In many countries Government have taken legislative and administrative measures and setup special agencies for assisting small and rural industries, eg. Smaller Enterprise Agency, Japan; Small Business Administration, USA; Rural Industries Development Commission, Britain, Small Industries Organisation, Khadi and Village Industries Commission, All India Handloom, Handicrafts Boards, Central Silk and Coir Boards, India etc. The Planning Commission, Government of India, has

been giving the entire sector of these village, cottage and small scale industries including handicrafts a permanent place in the nation's policy of employment and balanced economic development (The Plans) with a view to increase the country's production on a decentralised basis, particularly to meet the nation's ever increasing needs for consumer goods in common demand and to improve the immediate large-scale employment opportunities.

In this context, let us now examine some of the economic implications of the small scale organisations which are being developed in our country on a wider scale. The importance of a specific study of small scale industries arises from the fact that these have special characteristics distinct from those of the large scale industries. In large scale industrial undertakings, their economic size, efficient management, technical competence, suitable plant and equipment and financial prospects are taken for granted; while the position in small and village industries is, however, entirely different. There is a wide gap between management efficiency, labour productivity, levels of wages and profits in the two groups of large and small enterprises. Hence, it would not, therefore, be sound to treat all industrial problems as one homogeneous issue. The most important of the distinctive features of the small-scale industries are cited below:
Personal Character of Organisation

The outstanding feature of the small scale industries is the personal (proprietary) character of its organisation, management and ownership (in most of the cases) in contrast with the predominantly impersonal management of large scale organisations. Most of these units are owned by individuals, partnerships or private limited companies and the initial investment has been provided by the proprietors, themselves or by their friends. Again, a considerable part of the labour is provided by the proprietors, their families and their relatives. Very often they provide the most skilled labour, particularly in establishments where the owner is a master craftsman or a mechanist or an electrician. These units mostly provide self-employment to the proprietors. The bulk of the units, according to Prof. P.N. Dhar's survey of small scale industries in Delhi area, are single proprietary or family concerns (more than 86 per cent). Out of the total units surveyed, about 47 per cent are owned by single entrepreneurs (sole proprietors), 40 per cent by family partnership concerns consisting of two or more members of the family, and the rest by non-family partnership where the ownership is held by small groups which do not constitute a family. There are only two cases accounting less than even 2 per cent where family-owned units have taken in outsiders. The findings of this survey can be equally applicable to the small units in various part
of India. From the above survey it can be clearly observed that "there is a fierce tendency to keep the business within the bounds of the ownership of the family."\(^1\) As a matter of fact this kind of identity of ownership and management in small scale organisations is prevalent throughout the world. Specific examples are Japan, USA, etc. to quote Prof. A.D.H. Kaplan of USA\(^2\) the simplicity of organisation that marks an enterprise as small is reflected in the identity of ownership and management. The equity capital of small business is held within the inner circle of owner-managers. The small business is most typically the business of a single proprietor or a partnership. It means a job (self-employment) as well as an investment to its owner. On the score of management, the term small business should be reserved for the type of a firm that consists of a single independent organisation directly under the supervision of its owners, who are also its managers—whether incorporated or not.

\(^1\) Small Scale Industries in Delhi, Prof. P.N. Dhar, 1958

Out of the small firms surveyed by Prof. George Rosen, none were public limited concerns, a few private limited and the remainder were sole proprietorships or partnerships. Sole proprietorships were preferred due to burdensome red-tape of corporate legislation, fears of losing control and personal freedom. (There may be other reasons like illiteracy orthodoxy or egoistic psycholo of small industrialists and artisans).

It appears from the above discussion that the desire to own an independent business is at the root of the survival of many small units. By and large, small units are started by persons who value independence and are desirous of obtaining the highest reward for their initiative, technical skill and experience in a competitive market. As observed by Mr. Arthur Hatchen of the U.S. Small Business Administration, small business has always been the back bone of the American free enterprise system, since it keeps open the door of opportunity for people of vision and courage, people who want to go into business for themselves. Hence,

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1 Prof. George Rosen, Industrial Change in India, (MIT), 1959 150 to 152.

in many small units the promoter-proprietor is himself the manager, the technical man and the financier,¹ and ownership and management are in fact identical.

Under-Utilisation

Next we shall consider the issue of under-utilisation of capacity which has been more or less prevalent in small-scale and village industrial units. From the data given on centre-wise progress (capacity and physical production) of the Indian Handmade paper industry for 1953-54 to 1958-59 in the Survey Committee Report on Handmade paper industry, K & V.I.C. Bombay, 1959, it appears that in almost all the production centres surveyed full productive capacity (rated) utilisation was not made and in many cases the physical progress is far below the targets. The reasons mentioned being mostly financial difficulties (inadequate working capital-finance), followed by high wages, defective internal management, Government procedure, research activities, want of proper building. State Board's procedure, disinterest, under-construction, reconstruction, funds transferred to other centres, want of machinery, Factory Act, individual units not aided as not prepared to form as co-operatives, mismanagement, want of electric power, defective machinery, misutilisation, training work,

¹ Capital for Medium and Small Scale Industries, SSUES, 1959
preliminary stage etc.—even after granting, financial assistance in the shape of machinery and equipment and working capital as grants and loans to most of these production centres.\(^1\)

Another instance is the village oil ghani industry which has an installed capacity of double to what it utilises.\(^2\) The capacity lies idle because the village oil man does not get adequate supplies of oilseeds to crush nor has the means to purchase those seeds as and when he requires in the required amount of stocks. It has been gathered that the ghanis remain idle for most of the time in the year.

To quote the Bulletin of Small Industries, No.20, in the fountain pen and nib industry in the Southern region, there is at present nearly 50 per cent of idle capacity due to severe internal competition between small units themselves and with large units.\(^3\)


\(^3\) Bulletin of Small Industries, Govt. of India, No.20, 1959 November.
According to the Karve Committee Report only one third of the total manufacturing capacity is stated to be utilised at present in Coir industry of T.C.(Kerala).\(^1\)

These few examples amply justify the above statement that many of these units are being confronted with the problem of under utilisation of capacity or idle capacity. The most important reason being the inadequate finance for working capital. In most of the small-scale industries working capital is relatively more important than the fixed capital and, therefore, the operating expenses are more important than initial outlays in the setting of small industries.\(^2\) It has been gathered by Prof. P.N. Dhar in the survey of Small Scale Industries in Delhi, that "the reason for the existence of unused capacity is shortage of working capital."\(^3\) (If production is geared to full capacity, the working capital requirements of these units will increase sharply). Now let us examine the economic implications of this issue of under-utilisation of capacity in small units. This has a special significance in respect of the small-scale industries, when compared to the larger ones. In the

\(^1\) Karve Committee Report, Govt. of India, 1955, p.64.
\(^2\) Prof. P.N. Dhar, Small Scale Industries in Delhi, 1958, p.38
\(^3\) Ibid., p.36.
case of the large scale industry which is a capital-intensive and labour-sparing organisation, when an industrial unit experiences under utilisation, both the machinery and the labour are unemployed to some extent or other; and the managerial and organisational setup is also partially under-employed. But it is not so with the small-scale industries, which are labour-intensive and capital-sparing organisations. As the capital employed and the extent of mechanisation are not large enough here only the workers (mostly the self-employed proprietor-manager technicians and his relatives) would be unemployed to a considerable extent. The brunt of under-utilisation falls mainly on the workers. There are few (or no) other resources that could possibly be locked up, beyond the workers remaining unemployed. In other words, the total cut has to fall in a single factor, that is labour. In the case of large scale industries the cut is spread over many factors are earlier affected than labour. Thus the problem of under-utilisation turns out to be particularly serious in the case of small scale industries both from the political and the social points of view. Workers may have to starve due to the decline in their employment in these labour-intensive industries. If this social danger should be mitigated, it becomes necessary that the small scale units must be operated continuously and without gaps of retrenchment that may be brought about by other
considerations like demand fluctuations; or else, social problems such as labour unrest ensue. The closure of small scale units results mainly in adversity for the workers and makes the solution of the problem of unemployment urgent, lest political agitation should follow in its wake. Whereas in the case of the closure of the large units, the loss would be sustained by the investors who invested huge amounts of money (in the fixed capital) in the enterprise (of course with no loss of employment as such) and also by the labour. In some cases if a large factory is closed due to uneconomic working, the State itself will assume the management of that unit and operate it in order to set right the large scale unemployment caused.

Few Workers

Though the small-scale industry is capital-sparing and labour-intensive the number of workers employed in each unit is small when compared to a large unit. Let us examine the pros and cons of employing a small number of workers in each of these industrial units, Good labour relations and proper social conditions would prevail due to the fewness of workers in these units. Labour troubles like strikes are bound to be ineffective and the deal for labour is simple. Further, the small enterpriser has the advantage of a more intimate contact with his employees (often most of the
workers are his relatives or friends) and can make direct personal adjustments, whereas the large business has the problems of communication through formal channels. As these village, cottage and small industrial units mostly provide self-employment the complexities of the relationship between the employer and the employed are minimum, almost negligible. Hence small firms are generally capable of making change-overs with relatively little difficulty (and to some extent against labour unrest). Due to the small number of workers good personal touch and understanding between the employer and the employed can be developed. Due to the absence of congestion of workers (in decentralised small units) on compact premises healthy conditions of working and living prevail, with the result that there is no need for unduly large expenditure on social welfare measures. Further, with the progressive decentralisation of small units, social evils, psychological tensions and conflicts, congestion etc. (consequent to modern industrial employment) can be avoided and healthy working and living conditions can be made available to the workers, which in turn resulting in increased labour productivity. The cost

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of providing social welfare which is generally high with the large units, would be less in this case. Labour laws require that if the number of workers employed in a unit is considerably large, they have to be provided with elaborate facilities like rest halls, dispensaries, restaurants and canteens, housing recreation facilities, schools, and other benefits like bonus, State Insurance contributions etc. In spite of all this, there prevail congestion, bad living and working conditions, social evils, psychological conflicts and tensions, strikes and lockouts etc. in large industrial enterprises. On the other hand, the cost of providing labour welfare is bound to be low with the small scale industries, while it rises progressively with the size of the unit. We may assume that the cost of labour welfare incurred by a giant unit with 5000 workers is bound to be more than the aggregate cost of labour welfare incurred by 100 smaller units, each employing 50 workers. Apart from it the wage rates in small scale industries are significantly lower than the large-scale units. To quote Mr. Toyoroku Ando, a Japanese industrialist, wage rates in establishments with 4 to 9 workers are about 40 per cent of those of enterprises with 1000 or more workers in Japan.¹ This can

¹ Ibid.
be equally applicable to all countries. Due to all these reasons, the wage rates and earnings differ not only from (one small scale) industry to industry but from unit to unit in the same industry (even in the same locality).  

**Large Organisation**

The need for collective bargaining in the case of the small scale industries is less and hence there is limited need for labour organisations into trade unions. As these units mostly provide self-employment the scope for labour organisation is very limited. Collective bargaining, conciliation agreements and adjudication awards (which play an important role in wage fixation at uniform rates) are generally absent in the case of the small-scale industries.  

As the need for trade unionism is less, the cost of workers' organisation is also low. It is the good personal touch and harmonious labour relations (but not the demoralising influences of psychological tensions and conflicts, lack of human touch, purely monetary relationship and mercenary considerations that are prevalent in most of the large enterprises) between the employers and the employed that lessens the need for powerful bargaining capacity in small-scale units. A major cause of industrial tension is due to blocking up of the channels of communication of views and

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1. Prof. P.N. Dhar, Small Scale Industries in Delhi, p. 68.
2. Ibid.
ideas between management and employees. "Unionisation arises out of imperfect understanding, immature thinking and a false sense of right and wrong."¹ Some employers do not feel it worthwhile to feed information down the line. Ignorance leads to exercise of imagination in wrong directions,² the result being an industrial tension. Joint consultation—which is more amenable to small scale units—as distinct from collective bargaining, is a good arrangement within an undertaking for maintaining harmonious labour-management relations. Further, even if attempts made to organise the workers of small-scale industries into trade unions, they may as well fail due to the illiteracy, orthodoxy and peculiar egoistic psychology of the members. As the profits to the employer are not likely to be large in the small scale industries, he is not so powerful in exploiting the workers as is possible in the case of the


large industries. Hence even in highly industrialised countries like the United States also "a sizeable portion of small business—especially the very small enterprises—is still not unionised."¹

The small scale units are scattered throughout the country over a wide area and are not concentrated in a few particular areas; thus there would be no difficulty of deglomerating factors operating, like high rents, costly labour and social evils due to congestion. Further, the transport costs involved in labour reaching the work spot are negligible as these industries are situated throughout the country near the various places of labour supply. Further, the workmen are not removed from their homes and their normal surroundings in the case of decentralised small industries.

Small Size

On the other side, there are some demerits. There being few workers per unit in small industries, they cannot have the advantages of division of labour and specialisation to the fullest extent possible. Of course, for some industries like shoe making, this is not very significant, for we can limit the extent of division of labour. One village cobbler can do four or five sub-jobs simultaneously. ¹ Prof.A.D.H.Kaplan, Small Business: Its place and problems p.125.
But the efficiency and skill of the worker may suffer. There are other problems of general crudeness about the work and lack of polish, which may make specialisation and standardisation impossible to the extent necessary. Another drawback is that due to small size, the small industry is more susceptible than the large industry to several smaller random or chance factors such as high variability of know-how, skill or experience of producers, availability of fluid assets, capacity for industrial management, unexpected failure of production equipment, rapid changes in supply and demand conditions, etc. as their incidence is mostly local rather than general. While nature's counteractions such as World Wars, famines, earthquakes, floods, crop failures, fires, business cycles, sudden changes in the availability of raw materials or of energy sources, labour disputes, etc. which have profound influence on industrial production, would affect all sectors of industry more or less commonly and equally. But here also the large scale industrial sector may score over small-scale ones by its insurable capacity (risk-spreading) in minimising such risks. It is possible that due to the fewness of workers, labour lacks good organising ability and may have limited bargaining capacity. But as we have already noticed there is less need for labour organisation and powerful collective bargaining due to the possibility of good personal relation between the employer and the employed.
Productivity

One important implication of the small-scale industries is that their productivity is low. The self-employment which is dominating in our economy is not an integral one, resulting in low productivity due to the primitive types of tools of production the self-employed persons, i.e. the artisans use. Productivity may be defined in a small industry as "per capita production per unit time" or per capita productivity.\(^1\) "Productivity is the ratio of the change in the quantum of production to the change in the volume of input resources."\(^2\) The most prevalent and widely accepted definition of productivity is the "ratio of output to the corresponding input of labour".\(^3\) But it is an incomplete concept as it fails to include the inputs of other elements of production like raw material, fuel and equipment. However, output per head shows how far at any given moment a country has succeeded in making use of the

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\(^2\) Prof. P. N. Dhar, Small-scale Industries in Delhi, 1958, p. 78

\(^3\) Dr. M. M. Mehta, Measurement of Industrial Productivity, p. 12
real resources of their natural resources, their existing capital equipment and their labour resources...."1

As the capital equipment and outlays are low and as the methods of production are labour-intensive, the capital employed per worker is low in the (capital-sparing) small-scale industrial units. There is need for increasing the capitalisation of small-scale industries to enable them to procure good equipment, training facilities etc. so as to improve the productivity of the workmen. For example, a draughtsman with good and improved equipment turns a lot of work efficiently. Productivity which is measured by physical output per head "is influenced for example, by differences in the skill and effort of the workers but it is equally influenced by differences in managerial efficiency, differing technical equipment, rate of operations, (and plant utilisation) and various other factors."2 Higher productivity arises partly from better arrangement and partly from a governmental environment favourable to expansion, but its main sources are increased investment in and greater efficiency of capital goods, and near-capacity rates of utilisation of man-power and equipment."3 Produ-

1 Mr. L. Rostas, Comparative Productivity in British and American Industry, (1948), pp.1 & 2.
2 Ibid.
3 Mr. Kenneth B. Williams, Prices, Wages and Employment, as cited by Prof. Dhar in Small Scale Industries in Delhi.
ctivity is not only influenced by factors like nature of equipment and raw materials used but also by intangible factors like managerial skills, morale of workers (attitudes of minds), etc. The personal efficiency of workmen is intimately dependent on factors like the nature of equipment, efficiency of organisation, and supervision.

Productivity is low in the entire sector of small industries and varies from worker to worker as tools are distinctive and unstandardised and physical conditions of work differ. Small enterprises which operate at low level of productivity may hamper sound development of national economy.\footnote{1} The productivity in the small industries is very low in rural areas than in urban areas in our country. Mr. Teru Sasaki, a Japanese Small scale industries expert, during the course of his lecture on small industries in economic development at a meeting organised by the Forum of Free Enterprise in Madras on 6.3.1959 stated, "in India, at present, the per capita productivity in small industries in rural areas is much less when compared to urban areas.\footnote{2} He suggested that specialisation\footnote{3} in handicrafts and other small scale industries would solve this problem. According to Mr. Toyoroku Ando, Productivity, Vol. 1, No. 1, 1959 and The Hindu, Madras, dt. 7.3.1958, the Hest German Team (1956) also strongly recommended about specialisation in small industries.
to the Ford Foundation Team more often than not, age old methods are being used and seemingly have not been changed for generations together. Most of the small industries have obsolete tools and machinery. Thus the production per capita is low resulting in low earnings and low wages in small sized units. Further the methods of management and production fall far short of meeting modern demands for efficiency in small industrial establishments and artisans workshops visited by the Team. Most of the small industrial units are not even having sufficient working space for the various productive operations and functioning in conditions of unhealthy squalor (in recent premises, that too mostly in congested slum areas) resulting in lower industrial productivity.

The team of experts from West Germany in their report on possibilities for improvements in India's small scale industries observed that in most of the Indian small scale industries, there are shortcomings such as inadequate workspace, poor lighting at work places, poor ventilation of spaces, lack of measures for dust control, lack of sanitary and safety measures which tend to endanger the health of the workmen and curb their rate of productivity. It has been repeatedly stated by various authorities that the low-level

1 Ford Foundation Team's Report, 1855, Govt.of India, pp.12 & 13.
productivity in the Indian small industrial sector is due to old outmoded primitive tools and techniques of production. The reason for confining the choice, as far as possible to the available tools and techniques of long standing which have stood the test of time and the evolutionary process of the survival of the fittest -- is that they maximise the conservative individual small producer's expected gain with minimum industrial risk or "to put pessimistically, minimise his maximum risk." But the low output per unit of time in small units leads to either an increase in the unit cost of production of goods (resulting in reduced competitive ability) or as is usually the case, a reduction below the subsistence level of the wages of the artisans.

When we come to analyse the causes of differences in productivity we shall be interested in the use of tools and machines available for each pair of hands. According to L. Rostas, by far, the most immediate factor affecting output per worker is the amount of machinery available (when the production is sufficiently standardised to allow the economical use of this machinery). The extent of machinery "will depend on the size of the plant (and firm)" and the

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size "is determined by the size and the character of the market, as well as by many other factors." As indicated by the above statement, improved tools machinery and equipment are necessary, if the productivity of the small scale industries should be improved and organisational and production set up of the small industry should be reformed from the bottom. As mostly, people turn to these industries for subsidiary occupations to augment their meagre earnings from principal occupations; most of them do not have either enough resources of capital and finance to invest in these industries and/or enough time or leisure to work on these small industries continuously and diligently—the results being low per capita productivity and slow skill formation and uneconomical production. Even in the case of Japan, an industrially developed country, "it appears, however, that in the small industry sector as a whole, a very large proportion of the equipment in use in poor, wornout or obsolete and that a considerable proportion of the machinery purchased is second-hand." The reasons being low profits and reserves consequent on uneconomical production and acute internal competition; and thus only a little capital is available for renewal and modernisation. Since the absolute

size of the profits is small, the plough-back is consequently very small (after providing for the customary standards of proprietors' consumption requirements) and prescribes a very tardy rate of growth"\(^1\) Hence "there would appear to be a more urgent need to improve productivity and earnings of the artisans through a purposive drive to improve the techniques of production in these industries."\(^2\) In this context it is worthwhile to observe the opinion expressed by the Japanese Team, which recently visited India, on small industries. According to Team, "if small scale and cottage industries continues to depend on the outdated techniques of production it will have to go into decay before long."\(^3\) To quote Shriman Narayan, Member, Planning Commission in this context, it would be our constant endeavour to improve the techniques of production (so that the subsidies could be gradually scrapped")\(^4\). In order to keep pace with the growing population and rising living standards, rapid

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1 Prof.P.N.Dhar, Small scale industries in Delhi, p.40.  
2 Dr.Sundaram, A.I.R. Broadcast, Bombay dt.20.11.59 cited from KVIC's Jagriti, 3.12.59.  
4 Jagriti, dt.12.11.59, KVIC Bombay.
industrialisation of India through the promotion of decentralised small industrial sector could be done only by introducing modern techniques of production and improved equipments. Regarding technical improvement, what is required is the determination of the optimum rate of change of technique and the optimum kind of technique on the basis not only of the capital costs and the costs of production involved but also the employment effects and the other social consequences produced by different techniques. Optimisation of productivity and employment (per capita rise of productivity without any reduction in the volume of employment) for each rupee of capital investment in the small scale industrial sector are normally opposing and are conflicting objectives (maximising both productivity and productive employment—socio-technical conflicts) when the scale or volume of production is kept constant. They are the two dimensions of an industry one of which is economic and the other social. "If the objective of higher productivity means that the nation ought to produce enough of a commodity in absolute terms, it is evident that it can be achieved as well as by organising production in a large number of small manufacturing units as by organising it in a small number of large units. And from the point of view of full employment it is the first alternative that must be chosen." However, it would be wrong to let considerations
of employment dominate our thinking to the extent of accepting hopelessly inefficient, make-work schemes. For all but a handful of industrial processes, there are varying technologies related to the capacity desired, and varying ratios in which the factors of production, viz., labour and capital are to be combined. We should not be blind to the fact that more labour-intensive adaptations also exist side by side with the capital-intensive and labour-sparing imported automatic and semi-automatic machines. There are a number of technological alternatives of differing labour intensity, suited to the financial capacity and manpower conditions of each country. In the case of over-populated and under-developed countries, with open as also large mass of chronic disguised unemployment, the problem of higher productivity acquires an aspect of its own. While the urgency is greater than in advanced countries, the situation calls for different techniques and methods in securing increase in productivity. In this context the analysis of the ILO Productivity Team is significant: "Manpower is plentiful and capital is scarce. The application of techniques to raise productivity must, therefore, be governed by the need to make the best use of the abundant human resources, and to avoid waste of capital in all its forms—not only equipment but human skills, not only foreign
exchange but the whole physical fabric of industrial life... emphasis must be placed on productivity improvements requiring little or no new investment and not involving retrenchment or increase in unemployment....many changes can actually reduce capital requirements...fuller utilization of the existing capacity must necessarily be the prime consideration in policy, for where such policy exists, increase in production can usually be secured at diminishing cost per unit. The increase in productivity per unit of resources already employed can make a vital contribution to the increase in total production so urgently needed at the present time." These words of the ILO Productivity Team contain a good deal of wisdom with regard to the economics of this country.¹

From the above discussion, it appears that the task of developing improved techniques of production and equipment suitable for the decentralised small scale industrial sector offers a great challenge to the creative scientist and the economist. To quote the All India Handicrafts Board in this context, "if our scientists and engineers are bold enough and original enough, they can, as the scientists of Japan and Switzerland did, invest techniques suited to our

¹ Shri V.V.Giri, India and Productivity, Vol.1, No.1, 1959, p.6. N.P.C.
factor supply situation and consistent with the preservation of the human values. There is nothing in the nature of science which makes it inevitable that it can improve the efficiency only of mass production; properly used, the methods of science can as well improve small scale production without displacing large numbers of people.¹ Mechanised cottage industries would provide a proper synthesis of the technical perfection of the machine production with the artistic skill of the human hand and reconcile the need for the higher productivity, while preserving human values.² Hence a proper combination of new scientific techniques of production or technology and natural resources has to be evolved which can make up for the limitations of a small scale and of scarce capital resources to utilise surplus manpower resources through the creation of opportunities for employment to provide the key to economic prosperity in villages.³

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¹ AIHB's Annual Report, 1954-55, p.62
It has been observed that many of the small and cottage industries are working below full capacity. The reasons for the low level of production may be (i) lack of demand, (ii) lack of finance (iii) lack of trained labour etc. When the smallscale industries are provided with improved varieties of tools and equipment, they must be fully utilised; otherwise they turn out to be an economic waste of resources. While for improving the productivity of workers, good equipment and tools are needed, for the fullest utilisation of the tools and equipment large numbers of trained workers are required and this pre-supposes an adequate market for the products. Thus we get into a vicious circle when we try to improve the productivity of these industries. The market for these industries is bound to be rather limited and local. "The small business—typically though with notable exceptions finds its chief market in and around its own community. Typically small business is local in character although there are exceptions as obvious as importing or exporting."\(^1\) To quote Prof.P.N.Dhar, most of the small scale industries of the urban areas in Delhi are heavily oriented to the local

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\(^1\) Prof.A.D.H.Kaplan, Small Business; Its place and Problems 1948, New York, pp.18 & 21.
market (to the tune of above 60 per cent). The small firm is likely to prevail where the market is limited (or managerial ability scarce, or risk of sudden changes in demand great).

The traditional industries and crafts normally serve a local market, whereas those small industries which have mechanical equipment are engaged in producing goods with a much wider market. Small industries including traditional artistic crafts aim at larger markets, selling or trying to sell their products through out the country and abroad while the traditional village craftsmen (carpenters, blacksmiths, potters etc). work mainly for the needs of their neighbours within the village itself, and occasionally for the nearby village and small town markets. The Sixth Evaluation Report on the working of the Community Development and National Extension Service Movement in India observed (on the basis of a sample survey of certain pilot projects for rural industries located in the Community Development areas) that the basic problem of rural industries... is the limited market in the country. This is

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1 Prof. P.N. Dhar, Small Scale Industries in Delhi, 1958, p. 49
2 SSES, Capital for Medium and Small Scale Industries, Bombay, 1959, p. 5.
3 Ford Foundation Team Report, Govt. of India, 1955, p. 12.
due to low income in agriculture and the increasing competition from factory industries.¹ The above opinions amply illustrate the fact that the market for a larger part of the small industrial sector is rather limited and local.

The size of the market (as measured by the volume of output of the industry) has an important influence on factors affecting output per worker.² And it is obvious that the degree of mechanisation will also be dependant on the size of the market (output).³ As the size of the market for these industries is limited and is far from large, the chances of improved productivity are limited. The first requisite, therefore, for enabling these industries to improve their productivity is to preserve for them at least the local markets. In many cases the local demand may itself not be adequate for this purpose; and then there is the influx of outside supplies causing additional problems. Hence the need for regulating the outside supplies and thereby protecting local supplies; or alternatively for extending the demand to far off markets through organising

¹ The Times of India, New Service, New Delhi, The Times of India, Bombay, dt.20.6.1959
² L. Rostas, Comparative Productivity in British and American Industry, p.58.
³ Ibid.
the necessary sales propaganda. Obviously many of the small industries are ubiquitous in nature. Thus the flow of products from the local to the outside markets is a difficult matter, as there arise conflicts among the ubiquitously dispersed industrial units.

External Organisation

According to the recent views of the International Planning team of the Ford Foundation the small scale industries may aim at larger markets, selling or trying to sell their products throughout the country and abroad.\(^1\) Those small industries which have mechanical equipment are engaged in producing goods with a much wider market (than only local).\(^2\) Here a wide scope is visualised for them; and as these industries aim at larger markets, both national and foreign, there is great need to improve their productivity. To achieve the aim of catering to the distant markets there needs an organisation, for example a co-operative organisation for marketing the products in distant markets, both national and foreign and for conducting research in production techniques, marketing etc. There is great need for either competitive or common (collective) market research and for each individual unit to have its own organisation.

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\(^1\) Report on Small Industries in India--Ford Foundation, p.12

\(^2\) SSES, Capital for Medium and Small Scale Industries, Bombay, 1959, p.5.
To stimulate extensive demand both nationally and internationally some common external organisation is essential. As it is very expensive for any one of the small units to extend demand for its products to far off markets through extensive sales propaganda, a common external organisation is necessary.\footnote{Govt. sponsored National Small Industries Corporation, State Trading Corporation of India are assisting the small units in this direction.}

**Locational Peculiarity**

With the small scale industries there is great locational rigidity, in the sense that these industries are attached to certain localities. Many of these industries are located where the skilled workers or working population in general, are available and not at the places where the products in question are needed or the raw materials are available. It is not the case with all these industries, however, in case of industries like paper or chemicals, the industries can be established near the markets. In fact, some of these small scale industries can employ seasonally rotating labour. For example, in the case of the sugar industry workers are employed in one season only and in the other season, they generally seek jobs in agriculture or elsewhere. As the sugar producing (crushing) season is only three to four months in an year, the workers should be
mainly dependant on other occupations like agriculture and seek occasional employment in these seasonal industries which may be more paying than the others available. This kind of seasonal rotation of labour again emphasises the need for having the small scale units near the centres of labour; otherwise these labour-intensive industries have to suffer from shortage of sufficient seasonal labour. So, on the whole, the places with plentiful labour supply exercise a pull on the location of these industries. In the case of India there is enough of labour almost everywhere but, speaking on theoretical grounds, the point has an important bearing. As these industries are labour-intensive they go to places of plentiful labour supply. This makes the small scale industries particularly amenable to dispersal, for in a country like India population is most widely dispersed.

This shift in locational bias influences the cost structure of these industries favourably. The cost of labour, which is the most significant of all the costs of production of the small scale industries, is kept low since the industries are located at places of plentiful labour supply. Wherever the labour is cheap and plentiful these industries have to be developed there, giving less consideration to the other costs. Such a policy avoids social costs only where it is available plentifully.
Wherever there is some choice as between alternative locations it would be outweighed by the factor of availability of labour.

Though the location of these industries is influenced by the factor of plentiful labour supply, we have to consider other factors like the marketing costs, particularly when the markets are not entirely local. Although the production costs may be low because of easily available local labour, the marketing costs may mount up; especially where the organisation of selling is defective. Already we have noted, even with regard to pure production costs, the possibility of high costs on account of low productivity on the part of the small scale industries. This operates, as it were, as a qualitative influence on their cost structure. To add to this, there is the possibility of high costs on account markets the impact of low productivity would alone be felt in the realm of costs; whereas if the production is meant for outside markets, there is another unfavourable influence in the shape of high marketing costs, including selling costs, advertising and research into consumption habits. It may be recalled from the earlier discussion of the definitions that small scale industries are not necessarily those which cater to the local markets. The concept as visualised by the International Planning team of
the Ford Foundation emphasises that the aim of the small industries is to cater to the needs of the larger markets, both national and foreign.

**Marketing**

Small scale industries suffer from clear deficiencies in the field of marketing. The costs of marketing and the difficulties of marketing the products are high, though in the field of production the techniques are simplified so as to suit labour-intensive methods. There cannot be any over-simplification of the marketing techniques. This is a point worth noticing on the part of the policy-makers. Production techniques lend themselves to simplification and the production function can also be framed as to be simple or complex, labour or capital-intensive, mechanical or otherwise. But the art of selling remains as complex as in any other case; perhaps it becomes more difficult since the wares sold do not possess some of the advantages of the products of the large scale industry like standardisation (branding, trade marks, patents), advertising and selling organisation. The inabilities of small scale industries are particularly serious; for they do not have the resources for organising the sales efforts in the same way as the large units can. Further, their goodwill and control over the market are weaker. Perhaps they have to exert persuasion, if not pressure in selling their products.
The well-located units would score over those units which are marked, by an exclusive (labour) locational bias and the latter may not be able to compete with the well-located ones.

Internal and External Economies

In the case of both internal and external economies small-scale industries are in a disadvantageous position. Due to their small size, internal economies—which are dependent upon the growth of the individual units, unrelated to the number of, or action taken by other units in the industry—are not available for them; external economies which can only be enjoyable by a number of firms together, are themselves few, because of their wide dispersal or widespread location. As the size of the units is not large it is not possible to derive internal economies from specialisation and division of labour, large machines, linking and integration of processes, expert, efficient and specialist technicians and managers services and large scale production. It becomes uneconomical and costs very much (and in some cases even impossible) for any one of these small units to have its own expert technicians or to introduce large scale machines and division of labour and large scale production.
Due to wide dispersal these small units may not be able to derive external economies arising from agglomerating factors such as good transport, servicing, communications and banking facilities (though there are no degglomerating effects like social evils, psychological tensions and conflicts and least social and demographic adjustment to the technological change in the rural areas). For large units some external economies like training, marketing, advertisement, and research, commonly ensued by their forming into trusts, combinations and associations. By combining together voluntarily, they may achieve monopoly over markets and control them. But in the case of small units, due to their large number, it is not easy for them to come together into a trust or a cartel, in order to have some common services. Hence the economy of over-all organisation is lacking for the small units, and some external action (public intervention/aids, for example, marketing, technical advice and servicing, managerial advice etc. through the State sponsored small industries marketing corporations (NSIC), service institutes (SISIs), industrial estates and industrial extension and other service schemes), is necessary to ensure for them the benefit of common services, marketing and financing.
To quote the Ford Foundation Team regarding the common voluntary organisations or associations in the field of village and small scale industries in India, there are very few representative local associations not to speak of any tendency for State or All India associations. The Team has strongly recommended the effective formation of trade associations for small industries at local and regional levels and federations of these associations at States level and one top organisation, an all-India federation finally consisting of all these State federations. In bringing about adjustments such as adopting standardised techniques of production, systematising activities and in giving shape to the associations formed by the manufacturers themselves can play an effective role. It is indeed a healthy sign that the State is encouraging the formation of associations and federation of association of small industries at States and All India levels respectively (eg. Mysore, Orissa,

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1 The Ford Foundation Team's Report, Govt. of India, 1955, pp.45-46.

2 The Second Five Year Plan, the Estimates committee, 59-60 2nd Lok Sabha also emphasised the role of trade associations in the development of village and small industries- vide p.34 of the 77th Report of the Estimates Committee, 1959-60, 2nd Lok Sabha, part 2.

3 Ibid.,

Calcutta, Andhra Pradesh, etc. and Federation of Association of Small Industries in India, Okha, New Delhi) by giving them representation through nominating in Central and State Small Industries Boards and providing initial assistance through grants-in-aid.\textsuperscript{1} These organisations would consider common problems and device ways and means of fostering growth of small scale industries,\textsuperscript{2} and make joint endeavour to solve their difficulties. Recently in September, 1959, a Federation of Associations of Small Industries in India has been set up under the Societies Registration Act, as Okha Industrial Estate, New Delhi, as its registered office under the active encouragement and guidance of the Small Scale Industries Board with the aim of promoting the development of small scale industries by providing a common platform to small industrial units to exchange information and opinions of common (mutual) interest.\textsuperscript{3} To quote the observations of the Estimate Committee 1959-60 (2nd Lok Sabha), "the organisation of trade association is a very effective instrument

\textsuperscript{1} Bulletin of Small Industries, Govt. of India, No.21, Nov. 1959, p.16.

\textsuperscript{2} Shri M.M. Shah, Union Minister of Industries, Ibid., No.10 Dec.1958, p.2 (Shillong)

\textsuperscript{3} Ibid., No.21, Nov.1959, p.16.
of self-help for the improvement and development of any industry, particularly the small scale industry.¹

Further, closer co-operation between the large and small scale industrial sectors is highly desirable, particularly to foster the growth of small units as ancillaries to large units. Here, the Federations and Associations of both large and small industrial sectors play a vital role. There should not be any feeling of rivalry between the two sectors. In this context, it is worthwhile to note that the Federation of Indian Chambers of Commerce and Industry discounting the view that the development of small scale industries would adversely affect the large scale sector has set up a group committee to look after the development of medium and small scale industries and to develop closer contact with them. Further, it has urged its members and various industrial associations affiliated to it to set up sub-committees which in collaboration with the Small Industries Service Institutes should chalk out a programme for encouraging and implementing the farming out of production of ancillaries wherever it is possible.

We have discussed above how the economy of over-all organisation is lacking for the small units and the case for an imperative need for some form of common organisation and co-operative efforts and above all the inherent necessity for some external action to ensure for them the benefit of certain internal and external economies. These small industries derive neither the advantage of maximum internal economies nor a compensatory quota of external economies. This is the peculiarity in the case of these industries on broad ground of industrial organisation. If these industries are of large scale production (standardisation) and organisation, large scale marketing (branding, trade marks) and easy, cheap and long term big finance. If they are located or concentrated near to one another, they may achieve external economies like common marketing facilities, promotion of skilled labour, common technical services and so on. By the establishment of a common, co-operative or State agency, the small scale industries can have their products branded and marketed on a common trade name (NSIC's Jansevak and A.I.H.I.B.'s Hand Fab certification trade marks). As they are small units accounting for small quantities of output in the total output of the industry concerned, their influence on the total supply is not significant and their inclination to join into a combination is meagre.
Common Organisation

Let us consider some cases which reveal the difficulties of bringing the small units into a common organisation for the purpose of enabling them with better and organised production and distribution techniques. Take the instance of the Handloom Industry in India. The Government of India is providing certain operative facilities to rehabilitate and strengthen this industry. Vigorous efforts are being made at bringing the Handloom weavers within the co-operative fold by offering various types of assistance (rebates, subsidies, grants, cheap and free interest loans marketing facilities etc.) to those who join the co-operative fold. In spite of these inducements as much as 60 to 70 per cent of the handlooms have continued to remain outside the co-operative fold.¹ Perhaps the reasons may be that the handloom weavers fear that this eventually would mean either loss of control or it would entail undergoing long and tedious investigation and burdensome red tape.

In this context, it is worthwhile to quote the observation of Mr. D.N. Khosla on handicraft co-operatives in Rajasthan. "It is difficult to persuade workers to join

producers co-operatives where some loss in personal freedom is involved.¹ The handicraft workers in Rajasthan expressed the opinion that the independent worker moves with his art more successfully than a bound one; (as handicrafts flow from intention in art). Because of these difficulties the progress of handicraft co-operatives in Rajasthan is poor.

Now let us take up another example of similar nature from Andhra Pradesh. Kondapally in Andhra Pradesh is a famous toy manufacturing centre. Here a co-operative purchase and sale society was started in the year 1936. Till very recently its working was not satisfactory. Even now all the craftsmen (25 in number in 1956, 36 in 1960) have not joined in it and some (three to four) are marketing their products separately. The Society suffers from diverse views and diverse activities on the part of workers engaged in this industry who remained outside the society. Between these craftsmen and the co-operative society there prevail differences in prices (and rate cutting ensues). The Society's prices are higher than the outside prices. Since the quality cannot be standardised, the price differences can always be explained away in terms of differences in quality; at least the society may try to do so. But in fact,

¹ Shri D.N.Khosla, Co-operation and Cottage Industries in Rajasthan, Khadi Gramodyog, Vol.6, No.2, p.60. 1959
the producers of the toys as a whole have lost the possibility of organised selling, to their aggregate advantage.¹

Due to peculiar egoistic psychology, illiteracy and orthodoxy of the artisans, collective production by co-operative societies failed wherever it was attempted.²

Even though the small scale industries are handicapped by certain organisational peculiarities and inherent (above mentioned) defects, they may be developed with the help of some common organisational efforts, as the evils of large scale production—which is the alternative—are serious.

As the size of these units is small it would be very expensive for them to have able and efficient management for each and every unit. In order to remedy this defect some kind of common managerial machinery is essential for these units to discharge the technical functions like cost accounting, market research, price-policy making and training. In the case of large units each unit can have its own organisation to fulfil the above technical functions and employ its own efficient personnel.

¹ After the Governmental intervention in September 1954, the society started functioning kon prosperous lines.

The defects on the side of production in small unit cannot be profitably remedied and so action has to be taken at least to remedy the defects on the other fronts. For this purpose some kind of managerial chain or links is necessary which should not be a copy of the old type of Managing Agency System, the evils of which have been duly recognised long ago. There is also a strong case for converting the cottage industries to the status of the small scale industries by means of common organisation on the above grounds. Of course, it is very difficult, if not impossible, to induce all the small units to link together to have some common managerial services by creating a complete managerial machinery. Hence it is essential to improve the efficiency of these units so as to enable them to stand on their own legs, and some public action would be necessary to achieve this end.

Before concluding this chapter it is worthwhile to note the main functions and distinguishing characteristic features of these small industries:

1. These are comparatively capital-light industry involving less capital investment than those employing completely mechanised mass-production techniques. One peculiar feature of the capital aspect of these industries is that in the assets sphere the volume of revolving or working
capital is much bigger than the fixed capital indicating thereby their labour-intensity, liquid nature of capital structure, psychology of quick outturn, unsteady nature of market behaviour, importance of operating expenses than the initial outlays, uncertain course of profitability and income. Further the profit efficiency (profit-earning capacity) of capital is quite low, and in rare cases the profit is ploughed back to capital portfolio and consequently the capital formation is also at a very low level. Since the absolute size of the profits is small, the ploughback is consequently very small and prescribes a very tardy rate of growth.\(^1\) If we examine the capital-output relationships in these industries we find that production potency of capital is not satisfactory. This low capital productivity results in low gainful employment potentiality and capital-labour ratio is not maintained on economic level. All these indicate that capital co-efficient in these industries is at present very low in comparison with its All India figure of 2\(\frac{1}{2}\) and that of 4 in Western countries.\(^2\)

\(^1\) Prof. P. N. Dhar, Small Scale Industries in Delhi, 1958, p. 40

2. These industries are engaged in processing or manufacturing goods for, and offering services to limited areas or (local) markets.

3. These industries possess their modest equipment, considerable technical initiative and specialised skill to produce various kinds of articles tailored to customers' requirements. They can produce goods according to special designs and specifications which would not pay a large scale unit engaged in the manufacture of standardised goods on mass scale.

4. These industries offer opportunities to men with small means but with initiative, courage, enthusiasm and skill to set up their own business and conduct it with a degree of Independence, without any fear of losing personal freedom and control.

With comparatively small capital investment, specialised skill and low overhead charges the small industries can produce goods of quality cheaply and efficiently.¹

¹ SSES, Capital for Medium and Small Scale Industries, Bombay, 1959, pp. 8 & 9.
It can be summed up by saying that the small firm is likely to prevail and flourish if it produces goods of a very high quality or catering to special tastes, or where the market is limited, or managerial ability scarce, or risk of sudden changes in demand great, or when it is encouraged to grow as a matter of State policy as in India.