CHAPTER-I

INTRODUCTION
Small enterprises represent the fountain-head of vitality for the national economy. In the post-Industrial Revolution period in Europe, the concept of small enterprises has been a subject of keen debate. Small-scale industries have been playing a key role in the development of the economy in the world.

Developing countries worldwide have realised the potential and impact that development and encouragement of small-scale industries hold towards the long range national economy development of a country. To understand their significance better in overall economic growth, it is well to consider the characteristics of small-scale industries as well as their contribution to the economy.

Contrary to the impression that small-scale industries are important only in newly industrialising countries, similar industries in the United States of America and Japan have made significant contribution to the total national industrial output in 1990. In developing countries, the small-scale industries contribute even more significantly to the economy. This is primarily due to the ability of small-scale industry to generate employment, given a realizable level of capital investment. A World Bank study\(^1\) showed that a outlay of capital resources per job at modern Western or Soviet level is $15,000 per job created. The experience in the developing countries showed that the level for small-scale industries is about one-fifth of the western level or around $3,000 per job created.

In India, the outlay of capital resources (fixed assets) averages around Rs.10,000 to Rs.15,000 per job created. Research shows\(^2\) that small businesses create the bulk of jobs and innovations. It is for this reason that small enterprises and entrepreneurship are identified as engines of growth.

The following discussion examines the concept of small business. It begins by examining the distinctive features of small enterprises and large enterprises and then reviews the varied concepts prevalent in the economic system. The evolution of the concept in India is discussed in detail.

**SMALL VS. LARGE : IS THERE A DIFFERENCE**

Even with a general definition of a “small business” we might still question the rationale for studying small business apart from large business. That is, is the financial
management of a small enterprise different from that of a large firm? If there are no fundamental differences, there is no rationale for studying the financial practices of small enterprises apart from their large counterparts. The differences, may be viewed as follows:

1. **Capital Budgeting:** With respect to capital budgeting, the theory of finance would maintain that the utility of the firm’s shareholders is maximised when management invests in projects that maximise firm value. This position, which is called the market value rule, rests upon the condition that investors can diversify if they do not like the distribution of cash flows associated with the existing portfolio of the firm assets. This market value rule may be appropriate for shareholders of large firms, it becomes somewhat questionable for shareholders in smaller businesses. The degree of fit depends upon the shareholder’s accessibility to capital markets. For instance, many small firms are owner managed, where the owner has a disproportionate share of his or her wealth committed to the firm. Consequently, the opportunity for diversification is significantly limited. In this situation, the goal of maximizing firm value may at times be deemphasized or even ignored when selecting a capital project. Instead, an investment offering a smaller increase in value may be chosen if it provides increased diversification to the owner-manager’s portfolio.

   Thus, the goal of maximizing utility is no less important, however, the criterion offered by theory to achieve this objective, that is, the market rule, diminishes in importance for firms with limited accessibility to the capital markets.

2. **Working Capital Management:** Working capital management is extremely important in small enterprises since it is relatively more in small companies than in large companies. Because working capital shortages are a common problem for small enterprises. The reason is the difference in liquidity position of large and small firms. Large corporations have more liquidity. The difference could be the result of at least two factors. First, the small firm’s limited access to the capital market may impose the need for more economy in the use of working capital.
Second, the basic nature of the "entrepreneur" could have a bearing upon the working capital.

3. **Capital Structure:** Capital structure is defined as including all forms of debt and equity capital, not just long-term instruments. The capital structure of small firms is different from the large firms. Debt is relatively more important in small enterprises than large businesses. During the last several years the use of debt in large firms has increased at a slightly faster rate than it has in small firms, nevertheless, debt is now and undoubtless will remain a more important source of funds in small firms than in large firms. One major reason for heavy reliance of small enterprises on debt sources is that equity funds are not always available to them at reasonable cost.

Not only small businesses employ more debt than equity, but they also use more short-and intermediate- term debt than long-term debt. As a consequence, the risk of insolvency is greatly magnified.

4. **The Financial Information System:** There are certain fundamental differences between large and small business in terms of their need for financial information. In large companies, the owners are distant and distinct from the company's management. For these, large businesses, the accounting is designed to inform the owners about corporate operations as well as provide information for internal decision making and governmental reports. For small business, where owners and managers are often the same, the primary emphasis of the accounting system is to provide information for internal decision making.

**Concept of Small Industry**

The term 'small industry' has always not been clearly defined and understood properly. Some would consider an industrial undertaking small if it had no more than a specified number of employees. Others would like to believe that a small industry is one that limits its scope of operations to a local areas. Again, there have been attempts to define a small undertaking in terms of asset value or rupee sales volume. Further, a factory that is considered relatively small in a country of advanced industrial development
with large markets would seem relatively large in a country where modern industry is just starting and markets are small. To complicate the matters, further industry-wise variations in size are also there. A small plant in the steel industry may be many times larger than a plant considered sizeable in the garment industry. In view of the prevalence of many different ways of measuring size (by gross output, in physical or monetary terms, by capital assets, by installed horse-power, by number of employees, etc.) it is generally believed that there can be no single best way to classify industrial units as small or large. Different groupings are appropriate for different purposes and at different places and times.

The definitions of small industry differs from country to country depending upon their historical conditions and economic growth. It would be interesting to look into the definitions adopted in various developed and developing countries before turning our attention to the definition(s) adopted in India.

The definitions of small-scale industries prevalent in some countries are:

CHINA: In China, the definition of small industry is less quantified and vary with the product. These industries are designed to mobilise local raw-materials, local skills, local finance and local markets.

ECAFE: The working group of Economic Commission for Asia and the Far East had suggested in 1952 that small industries be defined for statistical purposes as an establishment employing not more than 20 persons when using power or 50 when not using power.

EGYPT, ISRAEL AND TURKEY: The United Nations Report (1958) on the development of the manufacturing industry in Egypt, Israel and Turkey refers to all manufacturing establishments employing less than 10 persons as small-scale industries.

INDONESIA: There is no differentiation between small-scale enterprises and cottage enterprises. More than 90 per cent of the enterprises in the small-scale and cottage industries group are cottage industries. The World Bank has characterised the small-scale industries in Indonesia as a hybrid of the traditional and modern industries.
THILAND: In Thailand a small industrial enterprise is defined as an enterprise the deposits of which do not exceed Baht 2 million (approx. Rs. 12 lakhs). Industrial enterprises are grouped under four categories, namely, manufacturing, servicing, handicraft and cottage industries.

GERMAN, SWEDEN, NORWAY AND DENMARK: There is no official definition of small industry. Units employing upto 300 workers are considered to be small.

IRAN: Small industries are defined as those;
1. With 100 per cent Iranian Ownership and management;
2. Whose assets do not exceed 5 million rials;
3. Whose employees per shift do not number more than 50; and
4. Whose products are not artistic in nature.

It has been further provided that investment in land and buildings must not exceed 25 per cent of the total capital.

SINGAPORE: The small enterprises are those which have fixed assets of less than $8 million and employ fewer than 50 works.

ITALY: Units having a capital investment of not more than 1,500 million lire and employing not more than 500 workers are considered to be small industries.

JAPAN: By small industries is meant those relatively small in the scale of management and capital investment, although the basis for classification varies according to the type of industry and cannot be generalised. The Government applies the term to those industries which employ less than 300 persons in the manufacturing sector with a capital of less than 50 million Yens ($1,33,000); and, in the commercial and professional services sector, with a capital of less than 10 million Yens ($26,000) employing less than 50 persons. The enterprises includes retail shops, shopping districts, beauty saloons, hair dressing establishments, and laundry shops (basic law of 1963).

KOREA: The term “small and medium” industry is defined in the Small and Medium Industry Co-operative Act as any unit:
(i) manufacturing with more than 5 and less than 200 employees or with total assets of less than 50 million Won; and

(ii) mining with more than 5 and less than 300 employees or with assets of less than 50 million Won.

**U.K.** : There is no demarcation between small and large industries. However, in books and treatises on industrial subjects, units employing less than 500 workers are generally referred to as small units, but this cannot be considered as a criterion of universal applicability.

**U.S.A.** : In the USA, a manufacturing firm is officially a small business for government procurement purposes, if it is not dominant in its field of operations and if it has fewer than 500 employees or if it is certified as small by the Small Business Administration. For purposes of financial and other assistance, it is classified as small if it employs fewer than 250 employees, depending upon the size and the standard set for different industries.

**VIETNAM** : A small industry is defined as one employing less than 300 persons and having not more than 20 million piastres in capital investment.

It can be seen from above definitions of small-scale industries prevalent in various countries that there are wide variations in the way small industry is defined in several countries. The irresolution in respect of the multi-farious definitions of the term ‘small industry’ mainly stems from three reasons.

A firm in one industry may loom large relative to its competitors, yet be small in employment and sales relative to firms in other countries; or the reverse may be true.

In some circumstances, the firm may be small on the basis of employment and large in assets and sales, or vice-versa.

The size standards expressed in financial terms (such as sales and asset value) need to be raised frequently in times of inflation to reflect changes in the value of rupee. Moreover, such quantitative definitions of a small unit leave undemonstrated in qualitative distinguishing features.
Marking of small firm from large one, in view of the preponderance of definitions in the field that differ widely from country to country, seems to be a futile exercise. It is like marking off cold water from hot water. Much depends on the purpose. Water considered hot for washing one’s hands is cold from the view point of running a steam turbine. In industry, many size gradations are possible, and any boundary line must be either shadowy or arbitrary. Hence, inclusive definitions seem to have an edge over exclusive definitions so far as the terminological conflict over the term ‘small industry’ is considered.

**Small Industry in India : Definition**

In India, the word ‘small industry’ primarily refers to manufacturing activity. More recently, the expression has also come to include, to a limited extent, ‘servicing’ activities such as repair and maintenance shops and few community services. It does not, however, include (as in Japan and the U.K.) wholesales and retail trading, where the expression used are ‘small enterprise’ or ‘small firms’ respectively.

The definition of small industry is an important aspect of Government policy since it identifies the specific groups for which the programme is intended. In India, in the early days, a definition that included both the total investment and labour employed was used; but it was given up in favour of investment on plant and machinery alone. With land and the building costs fluctuating widely, it was considered impracticable to take them into account; again, with the increasing diversity of sector, the labour employed ranges widely from a few to a few hundred persons. However, the definition has undergone changes periodically with the ceilings raised to take into account the rising costs of machinery as well as the falling value of the rupee.

In the Industrial Policy Resolution of 1948 and the document of the first five year plan, the only criteria to define small scale enterprises was their non-registration under the Factory Act. Thus small-scale enterprise meant all units which (a) used power and employed less than 10 works (including family labour), or (b) did not use power and employed upto 20 workers.
Later on, during the first five year plan, the distinction between “small-scale industry” and village industries was made. Small-scale enterprises were described as those small units which did not form an integral part of the village economy and were defined as (1) those units which employed less than 50 workers, if using power; or (2) less than 100 workers if not using power; or (3) having capital assets not exceeding Rs.5 lakhs. Thus three criteria – capital, employment and use of power were adopted.

Later, in 1960, employment and power were given up and only capital investment was retained as the determinant of size, capital investment being taken as investment in plant and machinery and excluding land and buildings. As per 1966 definition, all industrial units with a capital investment of not more than Rs.7.5 lakhs (irrespective of the number of persons employed) were treated as small scale units. For ancillary units, the limit was kept higher at Rs.10 lakhs.

In 1974, the limit of capital investment was again raised to Rs.10 lakhs in the case of small units and Rs.15 lakhs for ancillary units which was subsequently again raised to Rs.20 lakhs and Rs.25 lakhs respectively on 23rd July, 1980.

In 1982, it was decided to include even service oriented units within the small scale sector, provided they are set up in rural areas and town within a population of 5 lakhs or less, and subject to a ceiling of investment in plant and machinery of Rs.2 lakhs. In addition a new sector, the “TINY” sector was also defined which included units with less than Rs.2 lakhs investment. In 1985, the limit for small scale industry was further raised to 35 lakhs and 40 lakhs.

In the New Small Enterprises Policy announced in August, 1991, the investment limits in plant and machinery of small-scale industries raised to Rs.60 lakhs and those of ancillary and export oriented units had been raised to 75 lakhs. For the “TINY” enterprises, the limit had been raised from Rs.2 lakhs to Rs.5 lakhs irrespective of location.

These ceilings did not provide scope for technology upgradation to promote efficiency, productivity and reduction in costs to make production globally competitive.
The government accepted the recommendation of the Abid Hussain Committee regarding enhancement in investment ceiling and with effect from February 7, 1997 raised the investment limit in plant and machinery for the Small-scale sector to Rs.3 crore, from the prevailing Rs. 60 lakhs and Rs. 75 lakhs (for ancillary or export oriented units).

The investment ceiling for the tiny sector had also been increased five fold to Rs.25 lakhs from prevailing Rs.5 lakhs.

The measures were expected to help the small-scale units expand, diversify, undertake technology upgradation and modernisation to remain competitive while enabling them to avail of special benefits. The sector could now grow vertically and compete successfully in the market with large units.

However, those who were opposed to increase in investment limits argued that by increasing the limit to Rs. 3 crore, the government is allowing back-door entry to large and medium scale companies in sectors reserved for small units.

The ensure that large units do not corner the available bank finance, it has been decided that out of the funds formally available to the Small-scale industry sector, 40 per cent will be reserved for units with investment in plant and machinery upto Rs.5 lakhs, 20 per cent for units with investment between Rs.5 lakhs to Rs.25 lakhs and the remaining 40 per cent for Other Small-scale industrial units.

In 1998, the new government scaled down the investment limit for small-scale sector to Rupees One crore instead of Rs. 3 crore.

All these efforts are marginal and related to money aspect of machinery and plant. The investment limits always overlooked very many investment aspects of small-scale enterprises.

There is a need for serious thinking on the Government and the policy makers to strengthen the base of small-scale industries so that they play a key and dynamic role in the rapid industrialisation, as well as become globally competitive.
IMPORTANCE AND ROLE OF SMALL-SCALE INDUSTRIES IN NATIONAL ECONOMY

Small-scale industries are recognised as instruments of social transformation, enlarging employment opportunities, broadbasing entrepreneurship and securing dispersal of industries. They occupy a place of importance in the economy of all labour surplus countries as they provide employment for a substantial work force. They have a strategic role to play in the economic development of industrially less developed countries like India and remain important in the economies of the more highly industrialised countries.

Small-scale industries play a vital role in the resurgence of an economy. They are not only instruments of change but vehicles of growth and diversification. The Bolton Committee have looked at this role of small firms with some specificity as follows:

(i) They provide a productive outlet for the energies of the large group of enterprising and independent people who sat great store by economic independence and many of whom are antipathetic or less suited to employment in a larger organisation but who have much to contribute to the vitality of the economy.

(ii) In industries where the optimum size of production unit or sales outlet is small, often the most efficient form of business organisation is a small firm. For this reason many important trades and industries consist mainly of small firms.

(iii) Small firms add greatly to the variety of products and services offered to the consumers because they can flourish in a limited or specialised market which it would not be worthwhile or economic for a large firm to enter.

(iv) Many small firms act as specialist suppliers to large companies of parts, sub-assemblies or components, produced at lower cost than the large companies could achieve.

(v) In an economy in which large multi-product firms are continuously emerging small firms provide competition, both actual and potential, and provide some check on monopoly profits and on the inefficiency which monopoly breeds. In
this way, they contribute to the efficient working of the economic system as a whole.

(vi) Small firms, are an important source of innovation in products, techniques and services, even if their Research and Development expenditure is relatively low.

(vii) The small sector has for decades been the origin of new industries.

(viii) Perhaps most important, small firms provide the means of entry into business for new entrepreneurial talent and the seed-bed from which new large companies will grow to challenge and stimulate the established leaders of industry.9

In India, the role of small scale industries was adequately realised long back. This is reflected in the Industrial Policy Resolution of 6th April, 1948 which stated: “Cottage and small industries have a very important role in the national economy offering as they do scope for individual, village or co-operative enterprises and means for the rehabilitation of displaced persons. These industries are particularly suited for the better utilization of local resources and for the achievement of local self-sufficiency in respect of certain types of essential consumer goods”.10

Similarly, the industrial policy Resolution of 30th April, 1956 also described the role of small scale industries as follows:

“They provide immediate large scale employment, they offer a method of ensuring a more equitable distribution of the national income and they facilitate an effective mobilization of resources of capital and skill which might otherwise remain unutilised. Some of the problems that unplanned urbanisation tends to create will be avoided by the establishment of small centres of industrial production all over the country.”11

P.N. Dhar and H.F. Lydall have stated: “The promotion of small-scale industries has been widely recommended as one of the most appropriate means of developing industry in over-populated, backward countries. Japan is usually held up as the great example of what can be done in this way; and now, even communist China is said to be
following a similar path, at least in the rural areas. In no country, however, has the doctrine of small industry received such strong official support as in India. There are a number of reasons for this. The most important is the legacy of Gandhian teaching. In addition, the very wide distribution of existing small industry in India, the great pressure of population, and the shortage of capital have all tended to direct attention towards the small scale sector as a possible means of increasing output and employment in Indian industry for at least the next few decades.12

In our country the Five Year Plans launched by the government for the socio-economic development of our people aim at achieving the following objectives:

(i) Increasing the national income,
(ii) Solving the problem of unemployment, and
(iii) Socio-political goals like development of rural areas, decentralisation, good working conditions, equitable distribution of income and social and political equality.

Small-scale industries have to play an important role in achieving these objectives. In particular, they can play and are playing the following role:

(i) They put a curb on the excessive flow of labour from rural areas to big and overcrowded cities by providing the landless labour with employment.
(ii) Small-scale industries help prevention of concentration of industries at a few places which is necessary from strategic point of view as such concentration is dangerous in times of war.
(iii) Development of small-scale industries restrains the evil of capitalistic system, e.g., huge city development, oligarchy and political corruption.
(iv) Being labour intensive, small-scale industries solve the formidable problem of unemployment facing the country.
(v) They promote economic saving in “social overheads” like education, hospital, water, electricity and housing by taking industry nearer to people instead of
drawing people to industrial centres. This will offset possible economic costs of decentralisation.

(vi) They lead to more even and wide-spread development and reduce the contrast between urban and rural levels of living.

(vii) Development of small industries will mean progressive improvement in productivity and in the condition of life and work of the larger number of persons engaged in them without any disturbance in their local and social set up.

(viii) Without small-scale industries, the village economy becomes one-sided, completely dependent on agriculture which by itself can never ensure a large or steady income.

In brief, we can say that small-scale industries create more employment per unit of capital employed, bring about greater equality of income distribution, tap latent talent and entrepreneurial abilities and hoarded wealth and help the cause of regional dispersal of industries through decentralisation. Hence, they play a crucial role in socio-economic transformation of the economy characterised by scarcity of capital, chronic unemployment, gross income-inequalities, huge quantity of unused and hidden wealth and glaring imbalances in the interregional industrial development.

The Small-scale Industries and the Plans

In the post independence period, the government has focussed its attention to protection, promotion, training, productivity, upgradation of technology, modernisation and ancillarisation. The plan outlay steadily rose from Rs.5.20 crore in the First Plan to Rs.2848 crore in the Eighth Plan.
Growth of Small-scale Industries in India

The growth of Small-scale industries has been one of the most significant features of planned economic development. The small-scale sector has grown phenomenally during the last three decades and the sector has played and has potential to play a vital role in the fulfilment of our socio-economic objectives. The achievements of Small-scale Industries in last 10 years relating to production, employment as well as exports in the Small-scale industry sector are indicated in the Table 1.1. In 1989-90 there were 18.23 lakhs units in small-scale sector which increased to 31.21 lakhs units in 1998-99. The production at current prices has registered a phenomenal growth from Rs.132,320 crore in 1989-90 to Rs.5,27,515 crore in 1998-99. The small-scale sector has also made a significant contribution to growth of employment during the last ten years. In 1989-90 small scale sector was providing employment to 119.6 lakhs persons which rose to 171.58
Table 1.1
PERFORMANCE OF SMALL SCALE SECTOR

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of units (lakh nos.)</th>
<th>Production (Rs. Crores) at current prices</th>
<th>Production (Rs. Crores) at constant prices (1990-91)</th>
<th>Employment (lakh nos.)</th>
<th>Exports (Rs. Crores) at current prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989-90</td>
<td>18.23 (6.48)</td>
<td>1,32,320 (24.4)</td>
<td>28,690* (11.74)</td>
<td>119.6 (5.84)</td>
<td>7626 (38.9)</td>
</tr>
<tr>
<td>1990-91</td>
<td>19.48 (6.86)</td>
<td>1,55,340 (17.4)</td>
<td>155,340 (9.46)</td>
<td>125.30 (4.77)</td>
<td>9664 (26.74)</td>
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<tr>
<td>1991-92</td>
<td>20.82 (6.88)</td>
<td>1,78,699 (15.0)</td>
<td>1,60,156 (3.10)</td>
<td>129.80 (3.59)</td>
<td>13883 (43.65)</td>
</tr>
<tr>
<td>1992-93</td>
<td>22.46 (7.88)</td>
<td>2,09,300 (17.1)</td>
<td>1,69,125 (5.60)</td>
<td>134.06 (3.28)</td>
<td>17785 (28.11)</td>
</tr>
<tr>
<td>1993-94</td>
<td>23.81 (6.01)</td>
<td>2,41,648 (15.5)</td>
<td>1,81,133 (7.10)</td>
<td>139.38 (3.97)</td>
<td>25307 (42.29)</td>
</tr>
<tr>
<td>1994-95</td>
<td>25.71 (7.98)</td>
<td>2,93,990 (21.7)</td>
<td>1,99,427 (10.1)</td>
<td>146.56 (5.15)</td>
<td>29068 (14.86)</td>
</tr>
<tr>
<td>1995-96</td>
<td>27.24 (5.95)</td>
<td>3,56,213 (21.2)</td>
<td>2,22,162 (11.40)</td>
<td>152.61 (4.13)</td>
<td>36470 (25.50)</td>
</tr>
<tr>
<td>1996-97</td>
<td>28.57 (4.88)</td>
<td>4,12,636 (15.8)</td>
<td>2,47,311 (11.3)</td>
<td>160.00 (4.84)</td>
<td>39249 (7.61)</td>
</tr>
<tr>
<td>1997-98</td>
<td>30.14 (5.5)</td>
<td>4,65,171 (12.7)</td>
<td>2,68,159 (8.43)</td>
<td>167.20 (4.5)</td>
<td>44442 (13.23)</td>
</tr>
<tr>
<td>1998-99 (P)</td>
<td>31.21 (3.6)</td>
<td>5,27,515 (13.4)</td>
<td>N.A.</td>
<td>171.58 (2.6)</td>
<td>49481 (11.4)</td>
</tr>
</tbody>
</table>

Figures in the brackets give the percentage increase over the previous year.
* At 1970-71 price.
(P) Provisional
Source: D.C. (S.S.I.) Ministry of Industry

lakhs persons in 1998-99. Exports made by small-scale industries were of Rs.7,626 crore in 1989-90 at current prices which increased to Rs.49,481 crore during 1998-99. The
maximum growth in exports was made by small-scale industries in 1991-92, 43.65 per cent and the minimum in the year 1996-97, 7.61 per cent in comparison to previous year exports. The number of units increased maximum during 1994-95, 7.98 per cent and production as well as employment has grown maximum during 1989-90, 24.2 per cent and 5.84 per cent respectively in comparison to previous year. The minimum growth in number of units and employment was 3.6 per cent and 2.6 per cent respectively during 1998-99. Production of small-scale industries at current price has grown minimum during 1997-98, 12.7 per cent in comparison to previous year.

**Small-scale Industries in Haryana**

District-wise small-scale industries registered with the Directorate of Industries, Chandigarh, Haryana are given in the Table 1.2. This shows the district-wise number of small-scale industries registered at the end of each calendar year, number of new units registered and de-registered during the year from 1991 to 1999. At the end of 1991 there were 74,360 units registered in Haryana, which increased to 98,116 units at the end of 1997. But during 1997-98 the Directorate of Industries, Haryana, issued a circular to District Industries Centres to make a survey of registered units to find out the currently functioning and non-functioning units. Accordingly, the survey was conducted by every District Industry Centre during the year 1998 except in Jind district where survey was made during 1997. In Karnal survey was carried out in 1997-98. In the survey it was found that in Jind district 2,043 registered units were not working and hence, de-registered. Similarly, in other districts total 18,413 units were de-registered in 1998. Due to this survey conducted, the number of small-scale industries registered in 1997, decreased from 98,116 to 82,209 units in 1998. Currently on 31st December, 1999, there are 83,48 small-scale industries registered and working in Haryana. As shown in the Table, 48 per cent small-scale industries are there in three industrially developed districts—Gurgaon, Faridabad and Ambala. And remaining 52 per cent are in remaining 16 districts. In Haryana, maximum number of small-scale industries are in Gurgaon, 15,661 units followed by Faridabad 13,974 units, Ambala 10,413 units, Karnal 6,850 units, Hissar 6,403 units, Rohtak 4,825 units, Mohindergarh 4,265 units, Sonipat 4,134 units, Bhiwani 4,075 units, Jind 3,332 units, Kurukshetra 3,014 units, Sirsa 2,953 units and in remaining seven districts the number of registered units is less than 1000 each.
### Table 1.2
DISTRIBUTION-WISE CUMULATIVE NUMBER OF SSI UNITS (SIDO) GRANTED PERMANENT REGISTRATION BY THE DIRECTORATE OF INDUSTRY, CHANDIGARH, HARYANA FROM THE CALENDAR YEAR 1991 TO 1999

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</thead>
<tbody>
<tr>
<td>01. AMBALA</td>
<td>10190</td>
<td>399</td>
<td>10586</td>
<td>366</td>
<td>10947</td>
<td>245</td>
<td>6</td>
<td>11186</td>
<td>156</td>
<td>2</td>
<td>11340</td>
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<tr>
<td>02. GURGAON</td>
<td>11184</td>
<td>971</td>
<td>12128</td>
<td>833</td>
<td>12959</td>
<td>756</td>
<td>NIL</td>
<td>13715</td>
<td>461</td>
<td>NIL</td>
<td>14176</td>
</tr>
<tr>
<td>03. HISAR</td>
<td>4768</td>
<td>512</td>
<td>5280</td>
<td>355</td>
<td>5635</td>
<td>397</td>
<td>NIL</td>
<td>6032</td>
<td>330</td>
<td>NIL</td>
<td>6362</td>
</tr>
<tr>
<td>04. JIND</td>
<td>3691</td>
<td>286</td>
<td>NIL</td>
<td>3981</td>
<td>4215</td>
<td>206</td>
<td>NIL</td>
<td>4421</td>
<td>163</td>
<td>NIL</td>
<td>4584</td>
</tr>
<tr>
<td>05. KARNAL</td>
<td>6607</td>
<td>321</td>
<td>6913</td>
<td>274</td>
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<td>06. MOHINDERGARH</td>
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<td>4306</td>
<td>194</td>
<td>4499</td>
<td>166</td>
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<td>4663</td>
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<td>07. ROHTAK</td>
<td>4504</td>
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<td>08. SONIPAT</td>
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<td>6474</td>
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<td>6603</td>
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<td>09. BHIWANI</td>
<td>3366</td>
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<td>3618</td>
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<td>10. KURUKSHETRA</td>
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<td>12. FARIDABAD</td>
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<td>12226</td>
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<td>13. KATRAH</td>
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<td>14. PANIPAT</td>
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<td>70</td>
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<td>15. REWARI</td>
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<td>229</td>
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<td>10</td>
<td>1031</td>
<td>69</td>
<td>NIL</td>
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<td>16. YUMUNA NAGAR</td>
<td>620</td>
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<td>1031</td>
<td>282</td>
<td>1313</td>
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<td>NIL</td>
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<td>NIL</td>
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<td>17. PUNCHKULA</td>
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<td>-</td>
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<tr>
<td>18. JHAJJAR</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>19. FATEHBAD</td>
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<td>-</td>
<td>-</td>
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<td><strong>STATE TOTAL:</strong></td>
<td>74360</td>
<td>5815</td>
<td>222</td>
<td>799</td>
<td>4993</td>
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<td>169</td>
<td>89348</td>
<td>3958</td>
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</table>

State: Haryana, Code: 05

Source: Directorate of Industry, Chandigarh, Haryana.
The minimum number of registered small-scale industries in Haryana is 101 in Jhajjar district. The reason of such a less number of small-scale industries in Jhajjar district is, that the industries working in Bahadurgarh which were earlier in Rohtak district are still registered with the Rohtak district. Whereas Bahadurgarh now is a part of newly created Jhajjar Distt. At the same Jhajjar is an industrially backward district.

REVIEW OF LITERATURE

If the existing corpus of research work is taken under consideration it can be said that not many studies have been conducted on the aspect of 'Financial Management in Small-scale Industries'. Whatever literature is available on the subject, most of it is in the form of a text and only a few research studies are available. We attempt here to review the available literature on the subject under research.

Earnest W. Walker & J. William Petty-II\textsuperscript{13} have published a book entitled \textit{Financial Management of the Small Firms} in the year 1986. This is, perhaps, the only text available for the financial management of small firms. The book may be referred to as a reference book rather than a research publication. The book has been divided into five parts. The first part discusses the forms of organisations, their meaning, definitions, characteristics and their distinctive nature. Part II deals with the planning function in small firms. This part covers among others financial planning, profit planning, theory of working capital, management of receivables, cash forecasting and financial information system as applicable to the small firms. Part III of the book has been devoted exclusively to the long-term investment decision making. It also covers the topics like financial leverage and capital structure and investment and capital structure decision models. In Part IV the authors have given details about the valuation of closely held firms. In the end the authors discuss about the sources of financing which covered short-term capital, intermediate financing and long-term financing. A mention has also been made of the going public.

Suryakant M. Parikh\textsuperscript{14} has published a book entitled \textit{How to Finance Small Business Enterprises} in the year 1977. The book has been divided in five parts. Part I of the book examines the importance of small enterprises in our economic setting as well as the concept of small business enterprises. Part II of the book outlines the institutional set-
up for the development of small business enterprises in India and examines the role that
Banks can and should play in this task. Part III sets out the procedures and practices to be
followed by the bankers in respect of these cases, including those relating to credit
appraisal, evaluation of loan applications and legal requirements. In the last part of the
book the author discusses post sanction procedure, post-sanction control and supervision
of advances as well as nurturing and recovery of advances.

Donald S. Brightly and the Prentice-Hall Editorial Stall have published a book
entitled *Complete Guide to Financial Management for Small and Medium-sized Companies* in the year 1971. This book seeks to motivate the financial manager to take
action and to guides him to the best course of action. The book spells out the specific
workable plans and methods which will solve the problems of financial sector. The book
has been divided into twenty chapters. Each chapter is independent of the others and can
be studied without referring to the previous chapter. For instance, in the case of credit
policy and techniques the reader need only to turn to the chapter on receivables and
quickly find the answers to his questions.

In small and medium-sized companies the financial manager must be his own
expert in all areas. For this reason the Guide covers all major areas of finance. It
provides the important concepts and techniques. Within a topical format it lays out step-
by-step ways to improve the financial operation of the firm. These detailed methods are
the major substance of the book.

The book has been divided into following chapters: The Financial Manager’s job,
Handling cash and Making It Works, Streamlining Credit and Collection Management,
Controlling Inventory, Planning the Financial Future, Analysing Financial Performance,
Procedures for a Sound Capital Management Programme, Profit Planning Through
Budgeting and Cost Analysis, Organising a Management Information System, Waging a
Blitz on Costs, Managing the Legal Aspects of Finance, The Proper Handling of Debt,
Financing with Stocks and Bonds, Managing Dividends and Surplus, Proper Records
Management, How to Handle Tax Problems, Managing the Insurance Programme, The
Data Processing Pay off, Writing Better Reports to Management and Stockholders and
Managing People in the Financial Division.
Donal E. Vaughn has published a book entitled *Financial Planning for the Entrepreneur* in the year 1997. The book has been divided into three parts. The first part discusses those issues which are thought to be of significant importance in the financial management area to entrepreneurship, including the following:

- The legal form of organisation, including tax implications
- The importance of ratio analysis in planning
- Techniques and uses of projected financial statement
- Techniques and approaches for designing a cash flow schedule
- Reasons and approaches for developing a business plan
- Techniques and approaches for evaluating the capital budget
- Inventory management considerations
- Accounts Receivable management considerations
- Cash and temporary investment management issues
- Liability management considerations
- Capital structure planning approaches
- Evaluating a closely held firm
- Business plan outline.

In the second part, business and industry profiles have been developed which provide detailed information about the types of companies covered in the cases. In the last part, two or more cases have been developed that involve problem solving by the student about the topics previously covered in the first part.

James Bates has published a book entitled *The Financing of Small Business* in the year 1964. The main purpose of this book is to examine the financial problems of the small business from two points of view: that of economist and that of the owner or financial adviser of the small firm; and it attempts to do this in two ways. The first of these consists of a systematic outline of the main sources of funds available to small firms, and an account of the major problems and difficulties associated with them. At the same time the book includes the results of an inquiry into the financial affairs of small and medium-sized manufacturing firms carried out by the Oxford University Institute of Statistics during 1956.
The first two chapters consist of an examination in general terms of the problems of small firms and the principles of finance. The next six chapters set out each of the main sources of funds and analyse them in some detail, both from the point of view of the firm and from the point of view of the economist. The small firm faces particular difficulties in each field in which it attempts to raise funds: the author has discussed these and shown reasons for them, and attempted to show ways in which some of the difficulties may be overcome.

Some of the problems may be solved by the firms themselves or by their economic advisors; some could be overcome by changes in the practices of financial institutions, others are more far-reaching and are the subject of economic policy. In the last chapter he has attempted to draw together the main threads and to point the economic lessons of the study and to look some further implications.

Jim Dewhurst and Paul Burns\textsuperscript{18} have published another book entitled \textit{Small Business-Finance and Control} in 1983. This book concentrates on decisions and the provisions of the information needed to make sensible decisions. The book is divided into five parts. In Part I the background for setting up a small business in the U.K. economy is explored. Part II is concerned with the financing of the venture. In Part III of the book the accounting information and systems needed for proper decision-making are considered in some detail. Part IV deals with the use of information in making decisions in areas such as the control of working capital and the appraisal of capital investment projects. Part V looks at the future and makes some suggestions as to the proper role of the small business in our society.

Vasant Desai\textsuperscript{19} has presented study on \textit{Small-scale Enterprise Management} comprised of Twelve well-documented, integrated, comprehensive creative, and cohesive volumes in the year 1999. Each volume dwell on a specific aspect of small-scale enterprise management in a lucid manner. The study presents a Kaleidoscopic review of vivid and varied management aspects of small-scale enterprises. The present study is not only creative, but also cohesive and integrated. And, assist in right policy formulations with an eye on an ideal environment for entrepreneurial development in India and other developing countries.
It offers to entrepreneurs a rich fare of stimulating ideas, a new vision and challenging insights.

Out of these twelve volumes the fourth volume dwell on ‘Credit Management’. In this volume the author has covered all the important issues of financial management by correlating them to small-scale industries. This volume has been divided in twenty four chapters, such as, Financial Management — An Introduction, Project Approach, Project Planning, Organisation and Functions of Financial Institutions in India, Capital Structure, Capital Investment Appraisal, Financial Resources: External & Internal, Project Appraisal, Economic Analysis, Distribution Cost Analysis, Financial Appraisal, Ratio Analysis, Liquidity Management, Funds Flow Management, Concept of Working Capital, Working Capital Management, Social Cost-Benefit Analysis, Profit Planning, Break-even Analysis, Sensitivity Analysis, Leverage Analysis, Budgetary Control, Project Monitoring and Supervision and Project Benefit Monitoring and Evaluation.

To make each concept explicit and understandable examples as well as case studies have been dealt with in some of the chapters.

Lauren Read has published a book entitled *The Financing of Small Business – A Comparative study of male and female business owners* based on research carried out for Ph.D. thesis between October 1992 and October 1995 in the year 1998. The overall aim of the research is to provide the first, indepth, comparative study of the experiences of female and male business owners in raising finance in U.K. – the amount, nature and conditions of finance raised, attitudes towards the various sources of finance available to small business owners, and problems faced in the financing of their businesses.

Overall, the research indicates that the female business owners start their businesses with very modest amount of capital which they raise from a limited number of sources. Significantly more female business owners have used bank finance than the male business owners. Female respondents have borrowed significantly smaller amount of bank finance in the form of overdraft than the male respondents. The male respondents are found to have experienced more problems in the banking relationship than the female respondents. The female respondents have significantly larger networks than their male counterparts.
The findings of the research indicates that, when compared to the business, age, size, sector, and premises, there are more similarities than differences between male and female business owners in terms of the way in which they finance their businesses, in the banking relationship and in their networking behaviour. Moreover, there is little evidence to support the view that female business owners are discriminated against in the financing of their businesses.

Ghanashyam Panda\textsuperscript{21} has published a book entitled \textit{Management of Working Capital in small-scale Industries} in the year 1986 based on the research conducted by him. This book is a study of the working capital problems of small manufacturing companies in Orissa. It covers the problems of adequacy, the choice, the sources and problems of raising working capital. The book is divisible into two parts. Chapter one to four discuss the conceptual and contextual matters relating to working capital. The other five chapters carry the results of empirical analysis of collected data.

The main findings of the research study are:

- Small companies have limited access to long-term sources. Their investment in current assets is high.
- The factors responsible for increased bank borrowings are (1) Govt.'s fiscal policy. (2) Cost of bank finance. (3) availability of funds.
- Firms arranged additional trade credits of finance increased current needs.
- Improved fund generating capacity influenced net-working position in companies.

H.S. Pareek\textsuperscript{22} has published a book entitled \textit{Financing of Small-scale Industries in a Developing Economy} in the year 1978 based on the research conducted by him in the State of Rajasthan. The main objective of the study is to analyse the role of various agencies, particularly the financial institutions, in meeting the vital needs of finance of the small-scale industries.

The study reveals that the next important source after equity is the borrowings from non-institutional agencies such as friends, relatives and money lenders. Institutional finance ranks last in the sources of borrowings by the small-scale units. Under the ‘Capital Participation Scheme’ launched by ‘The Rajasthan Industrial and Mineral
Development Corporation', no assistance has so far been provided to any unit in the small-scale sector. The amount of term loans sanctioned by commercial banks to the small-scale units in Rajasthan has not been encouraging.

The author have suggested to constitute a two-tier co-ordination committee at the state and district level to review and advise on the flow of credit to the small-scale units. Some of the small-scale units do not disclose full information about their working operations. The institutional agencies are advised to collect such information from the entrepreneur, particularly from smaller among the small scale. An independent technical agency may be established in the state with the collaboration of all financial institutions for this purpose. The working capital advances provided by commercial banks to small-scale sector is generally on pledge basis which takes a good deal of time of the small-scale units in releasing and depositing of stock. Hence, advances, should be given against hypothecation of stocks.

Inderjit Singh and N.S. Gupta have published a book entitled *Financing of Small Industry* in the year 1977. This book is based on a micro study of small artisans and small-scale industries operating in Srinagar – the winter capital of Jammu and Kashmir State. It was completed in July, 1970, under the auspices of Banking Commission. The main object of this study is to highlight the pattern and problems of finance separately of small artisans and the small-scale industries so that the possibilities of institutional finance more specially of commercial banks could be explored for the benefit of the industrial units and the commercial banks on the one hand and the socio-economic development of the state on the other.

The study reveals enormous potentialities of bank credit which need to be exploited properly by the commercial banks. The industrial units have the requisite ability and the willingness to borrow if their traditional inhibition for bank credit is carefully uprooted by the commercial banks through contact and persuasion.

**Logic of the Study**

The importance of finance in the field of small industry is as fundamental as elsewhere. Every problem of the small producer is in the ultimate analysis a financial
one. “The problems of small industries together form a vast complex where the parts regarding material, production, quality control, finance marketing, etc., cannot be solved separately”.

The credit and finance problems have to be tackled as a part of the whole programme if they are to be solved. Without proper financial management there will be no efficient planning, nor purchase of material, nor production, nor marketing nor any fair profit, the later in its turn forming the foundation of finance itself.

Thus adequate finance is a pre-requisite to proper organisation of production and the purchase of raw materials, investment of capital in manufacture and the ultimate profit from the venture.

Till now public attention in this country has been focussed so much on the performance of large scale private industries and public undertakings and that the dismal performance of innumerable units promoted and managed by small entrepreneurs is going almost unnoticed. Several studies, seminars, symposia and meetings have been conducted on the rationale, growth and working of public enterprises and large-scale private sector. Distinguished economists and experts also paid their attention only to the problems of large-scale industries. Of the several aspects of Small-scale Industries management, it is the finance function that remained a darker area with no attention paid so far. The history of small-scale industries is replete with instances of mismanagement and lack of financial discipline. Even today, many small industries continue to suffer from the legacy of financial indiscretions and indiscipline. It is a fact that a large number of Small-scale Industries have no manual which lays down the procedure for compilation and maintenance of accounts and an effective internal audit system. Similarly, many of the enterprises do not have sound capital budgeting procedures, some do not have systematic cost records and inventory control methods. In many cases, the credit & collection systems are weak and large capital is blocked in inventories and receivables. It is in this context, an attempt have been made in the present research study to analyse the problems of financial management of small-scale industries with special reference to small-scale industries in Haryana.
Scope of the Study

The present study deals with the small-scale industries in Haryana. It was not possible to cover all the States in India due to time and financial constraints. However, we believe that the findings of the study would have equal applicability for the enterprises in other States also, since there is much similarity among the small industries with respect to size, structure, operation and management.

There are certain industries which are outside the scope of the small industry sector. These industries are handicrafts, handlooms, power looms, khadi and village industries, coir and silk industries. These industries come under the purview of the respective Boards or Commissions.

Objectives of the Study

The main aim of the study is to identify the financial problems of the small-scale industries in Haryana and suggest some measures for effective financially management of these industries, so as to make them financially viable. The study specifically aims at the following:

a) To evaluate the general planning, financial planning and profit planning including the tools of profit planning used by small firms;
b) To examine the financial information system of small-scale industries;
c) To study the management of different components of working capital, viz; cash, receivables, and inventory, in order to determine the degree of efficiency with which each of these components are managed;
d) To examine the important factors considered by small units while taking financing decisions and planning of capital structure and use of capital structure theories;
e) To examine whether capital budgeting technique is used or not for taking capital investment decisions and priority of the projects is fixed or not;
f) To examine the various sources of financing in small-scale industries; and
g) Finally, to make appropriate suggestions for policy makers for the more effective financial management of the industries to make them financially viable.
Data Requirement

The present study is based on both secondary and primary data. The secondary data have been collected from the Directorate of Industries, Chandigarh, Haryana; and office of the Small-scale industries Development Commissioner, New Delhi.

The primary data have been collected through questionnaire, interviews and observations. Primary data are the main base of the study. For this purpose we have undertaken intensive case studies of 400 selected small-scale industries in Haryana. Primary data have been collected from Financial Managers/Owners and Management of Small-scale Industries. The initial draft of the questionnaire have been tested through a pilot study of five units and the shortcomings found in the questionnaire have been removed.

Size of the Sample

According to the latest information available from the Directorate of Industries, Haryana, there are 83,448 registered small-scale industries in Haryana on 31st December, 1999. As we could not make an indepth study of all the units registered in Haryana. For the purpose of study, we have selected 400 units from all over the State, which comes to 0.5 per cent (approximately) of the universe. While selecting these units we have taken enough care to see that these are representative of all types of industries and all districts in Haryana. For the said purpose we have divided all the industries into six categories such as Garments, Auto-parts, Electronics, Metal Products, Rubber & Plastics, and Others (Table 1.3).

<table>
<thead>
<tr>
<th>Name of the Industry</th>
<th>Sample</th>
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<td>Garments</td>
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<tr>
<td>Auto-Parts</td>
<td>40</td>
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<tr>
<td>Electronics</td>
<td>60</td>
</tr>
<tr>
<td>Metal Products</td>
<td>78</td>
</tr>
<tr>
<td>Rubber &amp; Plastics</td>
<td>56</td>
</tr>
<tr>
<td>Others</td>
<td>86</td>
</tr>
<tr>
<td>(Machinery parts, Paper products, Chemical products, etc.)</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>400</strong></td>
</tr>
</tbody>
</table>
Presentation of the Study

The entire study is presented here in eight chapters.

The Introductory chapter provides a brief background of the growth of small industries in India in general and the growth of small industries in last ten years in Haryana in Particular. This is followed by a discussion on the logic of the study. Finally, objectives of the study, data requirement and size of the sample are discussed. The second chapter examines planning function performed in small-scale industries.

The third chapter provides information regarding the financial information system adopted by small firms and funds spend by small industries on it. The fourth chapter throws light on working capital management in small-scale industries. The fifth chapter presents financial leverage and capital structure planning in small firms. The sixth chapter discusses the preparation of capital budgets by small industries while taking investment decisions. This is followed by a discussion on priority of the projects and methods used for project evaluation. The seventh chapter enquires about the sources of funds used and the share of outsiders and owners’ funds in the total capital of small-scale industries. The last chapter presents summary of the study, conclusions and suggestions.
REFERENCES


2. Ibid., p.73.


