CHAPTER - II

AN OVERVIEW OF THE ROLE AND PROBLEMS OF
SMALL SCALE INDUSTRIES
Introduction

With the number of educated persons growing every year in the country, and agriculture and related sectors not absorbing them, it becomes necessary for these persons to prepare themselves getting absorbed in the field of industry. Further, even in the field of industry, it is recognised that the SSIs in this respect can play a much bigger role.

Recognising the role in the development of backward areas, utilisation of locally available resources, creation of more employment opportunities, saving of scarce capital, avoiding over concentration of wealth and income among a few big industrial houses, SSIs development has been receiving a lot of attention of the policy makers and administrators since several years. A host of promotional measures have been evolved and undertaken by the Government of India and State Governments, and in this context special attention has been given to the boosting of SSIs in the backward areas. Supported by the policy measures of the Government, SSIs have made rapid strides in the country and also in Karnataka during the last 25 years.

In this chapter, an attempt is made to analyse the problems of SSIs in Karnataka. This is preceded by a discussion and an analysis of what constitutes 'Small Scale Industry' in India, the role of SSIs in some advanced countries, in India and in Karnataka.
Definition of Small Scale Industries

Different groups of Small Industries have been known by different names viz., Cottage Industries, Rural Industries; Rural Industries consist broadly of Khadi and Village Industries, Handloom, Handicrafts, Sericulture, Coir Industries etc. These industries are traditional industries and are mostly located in rural and semi-urban areas; they rely almost wholly on manual operations.

Modern SSIs are mostly based on intermediate technology. Gunnar Myrdal uses the term Small Scale Industry "to include all industrial enterprises that are bigger than the household enterprises and regularly employ hired workers". According to the United Nations, Small Scale Industry "is generally understood to mean all manufacturing carried on in relatively small establishments. It may cover both small factories and non-factory producers, including artisan shops and work done at the homes of workers. It includes traditional and modern enterprises, hand and machine types of production, urban and rural establishments". Thus, Small Industries are of two types - traditional Small Industries and modern Small Scale Industries.


In India, modern Small Scale Industries have been classified into three categories and they are:

1. Small Scale Industries
2. Ancillary Industries
3. Tiny Units.

The latest official definition of Small Scale Industries as adopted by Government of India, is given below:

1. **Small Scale Industries** - undertakings having investment in plant and machinery not exceeding Rs.60 lakhs.

2. **Ancillary Industries** - undertakings having investment in plant and machinery not exceeding Rs.75 lakhs and engaged in:
   a) the manufacture of parts, components, sub-assemblies, toolings or intermediates, or
   b) rendering of services; and supplying or rendering, or proposing to supply or render 50 per cent of their production of other articles.

3. **Tiny Units** - undertakings having investment in plant and machinery not exceeding Rs.5 lakhs and located in towns and villages with a population of less than 50,000 according to 1971 census figure.

The present study is concerned with these categories of SSIs.

Small Scale Industries in Some Advanced Economies

In industrially advanced economies, SSIs play an important role. The Bolton Committee in its report on Small Firms in United Kingdom recognised the role of Small Firms on the following grounds:

1. Small units provide a productive outlet for the energies of a large group of persons who set great store by economic independence, many of whom are antipathetic or less suited to employment in large units but who have much to contribute to the vitality of the economy.

2. In industrial units where the optimum size of productive unit or the sales outlet is small, the most efficient form of business organisation is a small sized unit.

3. Many small sized units act as suppliers to big units of parts, sub-assemblies, components manufactured at lower cost than what the latter could achieve.

4. Small units supply a variety of goods and services to the buyer because these units can come up in a limited or specialised market, which it could not be worthwhile or economic for a big unit to enter into.

5. Small units provide competition, both actual and potential, and provide a check on monopoly profits and on the inefficiency which monopoly breeds. In this way, small units contribute to the efficient functioning of the economic system of the country.

6. Small units, inspite of relatively low capital expenditure on research and development by the sector as a whole, are an important source of products, techniques and services.

7. Small units sector is the traditional breeding ground for new industrial units.

8. Small units, also provide the means of entry into business for new entrepreneurial talents and the seed bed from which new big units will grow to challenge and stimulate the established leaders of industry.

The Organisation for Economic Co-operation and Development (OECD) recognises the role of smaller firms on the following grounds:

1. They are more responsive to new ideas and have greater administrative and decision making flexibility than bigger units;

2. They are better equipped to cater for specialised markets;

3. They provide an opportunity to certain types of independent minded, dynamic managers to utilise their talents more fully than would be possible in bigger units.

The World Bank recommends the promotion of SSIs for the reasons given below:

1. They serve basic local demand at concessional prices;

2. They employ different types of labour;

3. They contribute to a regional distribution of income;

4. They also contribute to a personal distribution of income.

The contribution of SSIs to industrial growth and employment is widely recognised in USA, Japan and other advanced countries of the world.

In USA, the Small Business sector has an envious position in the total socio-economic structure of the country. In 1986, Small Business Units accounted for 99.62% of America's total industrial units, employing 49.68% of the country's business population. This sector annually contributes about 40% of GNP of this country.7

In the Japanese economy, Small Scale Enterprises are seen as playing a dynamic role by flexibly adapting themselves to changes in the needs of Japanese people and quickly responding to transformations in the industrial structure. As of 1984-85, the Small Scale Enterprises in Japan accounted for 99% of the total industrial units of this country. The output of this sector accounts for 50% of the total industrial output and 40% of the value of export of industrial products.8

In Ireland, 8 out of 10 units were Small Units (1979) and account for one quarter of the total employees engaged in

7. U.S. Small Business Administration, Washington, D.C. (Data obtained through personal correspondence)

manufacturing. In the Federal Republic of Germany, about 2/3 of total employment is provided by the small sector.*

In Italy, "the dynamic role played by the Small Scale Industries has transformed the nature of Italian economy, from agricultural to industrial, and from a 'sick child of Europe' to one of the most vibrant countries of Europe".†

Integration of Small Scale and Large Scale Industries through ancillarisation is an important feature of industrial development of Japan, USA, and other advanced countries. In India also, the Government policy has been one of encouraging ancillarisation.

Role of Small Scale Industries in the Economic Development of India

The role of SSIs is considered to be quite vital in the context of the socio-economic character of India. This, as we know, is characterised by a predominantly agrarian economy with low agricultural productivity, wide-spread unemployment, overpopulation, low growth rate, low per capita income, yawning gap in the distribution of income


and wealth and regional imbalance in industrial development. SSIs can play a very important role in bringing about a progressive transformation of this character by creating employment, raising income, standard of living and contributing to gross national product. Mr. K.L. Nanjappa, Chief exponent of SSIs in India analyses the role of SSIs in the following words:

1. SSIs are helpful for mobilising untapped scarce resources of capital and entrepreneurial skill that may otherwise remain unused in our vast country.

2. They are expected to ensure the diffusion of productive industrial activity in order to:

   a) avoid localisation of industries in particular places and resultant migration of people to the metropolis causing socio-economic and political maladies of concentration;

   b) create employment opportunities in areas where large additions to labour force accrue year after year and foster balanced regional development of the country; and

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c) foster progressive rural economy through the establishment of economic and functional links between backward areas and the big cities.

SSIs sector is regarded as the backbone of India's industrialisation. The contribution of this sector to the country's industrial production, employment and exports is sizable. There are 15.76 lakhs (1988) SSIs in the organised sector, producing about 5,500 varieties of products, and accounting for 29 per cent (1987-88) of country's exports. In terms of employment, this sector provides self employment and wage employment to about 107 lakhs persons. The production of this sector during 1987-88 was worth Rs.87,300 crores at current prices, which accounted for 35 per cent of the country's production. In some fields like electronics, its contribution is even more significant; this sector in fact accounts for roughly 45 per cent in consumer electronics, 75 per cent in instruments and instrumentation and 45 per cent in computer and allied items.  


Role of SSIs in Karnataka Economy

SSIs play an important role in the economic development of Karnataka especially from the point of view of development of backward areas, creation of entrepreneurship among the people and creation of employment opportunities for unemployed persons. This sector contributes substantially to the State domestic product and holds an important place in the matter of ancillary development. Its role is also important from the point of view of exports.

There are 86,056 registered SSIs (as on 31st March, 1988), with a capital investment of Rs.75,244.45 lakhs; the total production of this sector is estimated at around Rs.3,500 crores per annum and exports at around Rs.200 crores. The number of persons employed in these units is 6,52,625. As regards the Ancillary units, there are 299 working Ancillary units (as on 31st March, 1988) with a total capital investment of Rs.1,377.77 lakhs, with approximate turnover of Rs.1,648.54 lakhs and total employment of 5,268.


Items Manufactured by SSIs of Karnataka

The variety and range of products manufactured by the SSIs of the State reflect the progress made in this sector. From the ordinary units that they were, engaged either in the manufacture of traditional articles or undertaking repair and service facilities, SSIs have emerged as versatile and dynamic units.

SSIs of the State have been categorised into 17 broad groups by the Directorate of Industries and Commerce, Government of Karnataka. Details of the numbers and percentages of different categories of SSIs of the State as on 31st March, 1966 are given in Table II.1.

As given in Table II.1, 75.47% of units are SIDO units and 24.53% of the units are Non-SIDO units. The SSIs falling under the purview of Small Industries Development organisation, Government of India, are referred to as SIDO Units, and the units not falling under the purview of this organisation are referred to as Non-SIDO Units. Examples of Non-SIDO Units are SSI Units producing Coir, Silk etc.

It is evident from Table II.1, that the largest number of units forming 13.45% (11574 Units) of the total units are engaged in the manufacture of food and beverages. The SSIs
Table 11.1
Classification of Registered SSIs of Karnataka (Cumulative Totals) As on 31st March, 1988

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Industry (Major Head)</th>
<th>No. of Units</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Food and Beverages</td>
<td>11574</td>
<td>13.45</td>
</tr>
<tr>
<td>2</td>
<td>Textiles and Garments</td>
<td>5048</td>
<td>5.87</td>
</tr>
<tr>
<td>3</td>
<td>Wood and Wood products</td>
<td>5699</td>
<td>6.62</td>
</tr>
<tr>
<td>4</td>
<td>Printing/Stationery paper &amp; pulp</td>
<td>3401</td>
<td>3.95</td>
</tr>
<tr>
<td>5</td>
<td>Leather &amp; Leather products</td>
<td>2813</td>
<td>3.27</td>
</tr>
<tr>
<td>6</td>
<td>Rubber &amp; Plastics</td>
<td>2315</td>
<td>2.69</td>
</tr>
<tr>
<td>7</td>
<td>Chemical &amp; Chemical products</td>
<td>3794</td>
<td>4.41</td>
</tr>
<tr>
<td>8</td>
<td>Glass &amp; Ceramics</td>
<td>2275</td>
<td>2.64</td>
</tr>
<tr>
<td>9</td>
<td>Metal &amp; Metal products</td>
<td>7154</td>
<td>8.31</td>
</tr>
<tr>
<td>10</td>
<td>General Engineering/Agro-Equipments/Machinery parts</td>
<td>4343</td>
<td>5.05</td>
</tr>
<tr>
<td>11</td>
<td>Electrical &amp; Electronics</td>
<td>1490</td>
<td>1.73</td>
</tr>
<tr>
<td>12</td>
<td>Automobile</td>
<td>225</td>
<td>0.26</td>
</tr>
<tr>
<td>13</td>
<td>Transport Equipment &amp; Parts</td>
<td>885</td>
<td>1.03</td>
</tr>
<tr>
<td>14</td>
<td>Ferrous &amp; Non-Ferrous</td>
<td>138</td>
<td>0.16</td>
</tr>
<tr>
<td>15</td>
<td>Job Work/Repair/Services</td>
<td>5920</td>
<td>6.88</td>
</tr>
<tr>
<td>16</td>
<td>Other services</td>
<td>7875</td>
<td>9.15</td>
</tr>
<tr>
<td>17</td>
<td>Non- SIDO Units</td>
<td>21107</td>
<td>24.53</td>
</tr>
</tbody>
</table>

| Total   |                                               | 66056        | 100.00     |

Source: Directorate of Industries and Commerce, Government of Karnataka, Bangalore.

of this category manufacture products like confectionery, bread, malt extracts, breakfast food, pickles, ketchup, soft drinks, chocolates, fruit juices, meat products, sea foods, ice cream, fruits and canned vegetables, spices etc. The 16th category in Table 11.1, i.e., other services, with 7,875 units constituting 9.15% of the total holds the next position. The units falling under this category are jewellery
making units, dry cleaning, service stations, television radio repairing units etc.

The percentage-wise distribution of units in other groups in order of their importance is - metal and metal products (8.31%), job work/repair/servicing (6.88%), textiles and garments (5.87%), general engineering/agro-equipments/machinery parts (5.05%), chemical and chemical products (4.41%), printing/stationery paper and pulp (3.95%), leather and leather products (3.27%), rubber and plastics (2.69%) and glass and ceramics (2.64%).

The remaining four groups consist of electricals and electronics, transport equipment and parts, automobiles, ferrous and non-ferrous put together account for 3.18% of the total SSIs of the State.

Problems of SSIs

Despite the considerable progress made by the SSIs in the State, their growth has been haphazard and uncoordinated. As elsewhere in the country, in Karnataka also, there is regional imbalance in the development of Small Scale and other industries. Bangalore district has the largest number of SSIs in the State. Further, mortality rate and growth of sick units in the Small Scale sector are on the increase. At the end of December, 1985, 5,705 SSIs of the State were sick and the outstanding capital in these
units was Rs.77.61 crores. As elsewhere, in Karnataka also, SSIs are facing a number of problems and these problems can be brought under two broad categories viz., financial and non-financial problems.

**Problem of Finance**

One of the most important vexatious problems of SSIs is the shortage of finance and credit. The capital base of majority of SSIs is weak. The shortage of finance and credit creates a whole group of problems relating to size of the unit, the quality of labour, market coverage, purchase of raw materials, machinery and equipment; all these problems in turn lead to low and poor quality of production.

Therefore, as has been rightly observed by the International Planning Team of Ford Foundation, "The problem of SSIs together form a vast complex where the different 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. For, without proper finance there will be no efficient planning, nor purchase of material, nor production, nor marketing, nor any fair profit."
the latter in its turn forming the foundation of the finance itself". 17

"Thus, it is obvious that inadequacy or shortage of finance at the initial stages of the development of SSIs, will retard the progress, and lead to a financial crisis, resulting in making them sick. 18 According to a survey conducted by the Directorate of Industries and Commerce, Government of Karnataka, on Sick SSIs of the State, of the 325 units contacted, 257 accounting for 79.08% have stated that the shortage of finance has been the main cause of their sickness. 18

Non-Financial Problems

Raw Materials Problem

The first and foremost non-financial problem is the raw materials problem. It relates to the shortage of raw materials like iron and steel, pig iron, A grade coke, EC and CG grade aluminium, copper, tin, paraffin wax, caustic soda, soda ash, cement, chemicals etc. The main problems have been


that these raw materials are not available in time, at right price and of requisite quality and in required quantity.

Earlier, SSIs were manufacturing the products mostly depending on the locally available raw materials and at that time, this problem was not very acute. Ever since the modern SSIs started manufacturing sophisticated products, this problem has emerged as a serious one. There are SSIs which are manufacturing the goods by using imported raw materials. Whenever there is difficulty in obtaining imported raw materials either on account of the foreign exchange crisis or for some other reason, these units have to face severe handicap.

Power Problem

Power is one of the most important inputs for the modern SSIs. There is inadequate supply of power for the SSIs of the State; also the supply of power is uncertain and breakdowns are frequent. The erratic power supply results in damage to the plant and causes suspension of work for long hours.

In Karnataka, the first Hydro-Electric Power Generation Unit was installed as far back as 1902. The per capita consumption of power has since then risen and risen rapidly. The growth in per capita consumption has transformed the surplus position of the State into a deficit one.
As against power shortage of 9.4% in 1986-87 and 10.8% in 1987-88 for the entire country, power shortage in Karnataka during this period was 26.9% and 30.6% respectively, this being highest in the country.

Marketing Problem

Marketing is a major problem area for the SSIs in general. SSIs do not have marketing expertise and resources to sell their products effectively. Financial difficulties do not permit them to offer attractive credit terms and the like, to the marketing intermediaries.

Many SSIs are having weak bargaining power and the intermediaries dealing in the products of SSIs take advantage of this helpless situation.

Another important problem being faced by SSIs in the field of marketing is that they have to face severe competition from the large scale industries. Large scale industries by virtue of internal and external economies are able to dominate the market vis-a-vis the SSIs.

SSIs also have to face competition among themselves. Many SSIs supplying the same product create a situation

wherein in large scale industries finding themselves in a strong bargaining position, purchase products from the SSIs at competitive rates. The result is that the SSIs lose in the bargain.

Problems of Ancillary Units

Ancillary units face varied types of problems; some of them are enumerated below:

1. Many a time ancillary units do not get adequate orders from the large units.

2. Large units make undue delay in the payment of bills relating to the parts/components/sub-assemblies, toolings or intermediates supplied by the ancillary units.

3. Many ancillary units, due to deficiency of capital, are not able to carry out research and development activities. Due to this reason, the products supplied to large units may not sometimes be of satisfactory quality.

Obsolete Technology

Machinery and equipment in many SSIs have grown obsolescent. On account of this reason, while their costs of production are high, the quality is inferior as compared to the large scale industries. Moreover, many SSIs cannot give
attention to the changing needs of the consumers due to their weak financial condition.

Transport Bottleneck

SSIs located in the interior places have also to face the transport bottleneck. The severity of the problem is felt all the more by the SSIs since they have to depend on regular and timely supplies of raw materials and on the quick distribution and sales of their products as their product retaining ability is quite poor. Transportation cost to be borne by the SSIs is also exorbitant.

Other Problems

In addition to the problems enumerated in the above paragraphs, SSIs face a host of other problems like inefficient management due to lack of entrepreneurial skill, lack of skilled labour and truancy of labour during crucial time, risks created by Government procedures, burden of local taxes etc.

Need for Incentives and Facilities

SSIs which come up in the backward areas are in a disadvantageous position and face several problems as compared with the SSIs of advanced areas. There are several advantages which are available to the SSIs of advanced areas and the most important of them are given below:
1. Easy accessibility to the financial resources
2. Availability of skilled personnel
3. Availability of raw materials
4. Availability of ready factory buildings with easy power connections, water supply and other facilities
5. Availability of repair services
6. Better transport and communication facilities
7. Proximity to market
8. Availability of medical, educational and recreation facilities
9. Availability of watch and ward facility, etc.

The need for incentives and facilities to the entrepreneurs of backward areas arises for the following important reasons:

1. Small Scale Entrepreneurs who come to backward areas to start SSIs, on their own, cannot make required arrangements due to their weak financial position.

2. Incentives and facilities are necessary to help the entrepreneurs to overcome the problems which crop up in the initial stages of establishment of SSIs in the backward areas.

3. Incentives and facilities are necessary to compensate the disadvantages of backward areas.
4. Incentives and facilities are also necessary to strengthen the economic position of fledgling units of backward areas.

Conclusion

The role of SSIs is recognised in many of the advanced countries of the world. In India also important role is assigned to them in the economic development of the country. With the policy support of the Government, there is fast growth of these units in the country.

In Karnataka also, SSIs are growing in large volume. The achievements of these units in the fields of employment generation, production, exports, diversification, modernisation etc., are noteworthy.

But, some of the objectives set for the SSIs are yet to be achieved. The dispersal of SSIs far away from the Bangalore metropolitan area and other big centers of the State has not taken place to an appreciable extent.

Sickness in the SSIs is alarming due to several problems being faced by them. Many of the aspiring entrepreneurs are finding it difficult to start SSIs in the backward areas.

In order to bring about even distribution of SSIs in different regions of the State, to encourage and help prospective persons to establish SSIs in the backward areas,
a variety of promotional measures have been formulated. In order to administer these promotional measures, a comprehensive network of institutions has been evolved by both the Central Government and Government of Karnataka. The next chapter presents an analysis of the institutional network evolved for the promotion and development of SSIs.