PART-B
CHAPTER IV

SMALL SCALE INDUSTRIAL UNITS - A GENERAL OUTLOOK
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A GENERAL OUTLOOK

1. Location of Industrial Units:

Importance of location:

Small scale units play an important role in the rapid industrial development of an area. This can best be understood when we look at the wide range of articles produced by this sector viz., textile garments, machine parts, electric and electronic goods and a variety of light engineering products. (1)

There are many reasons for the successful and economically visible co-existence of small units along with large industrial units. Important among them are:

(a) Utilisation of locally available resources:
Small units may be capable of utilising the small quantities of local raw materials, convert them into semi-finished products and then supply to large units located elsewhere.

(b) The size and nature of the market being developed for the products of small units:
For example, since a small producer will

(1) A detailed discussion on the products manufactured in this sector is given in Chapter I.
have limited market for his product a perfect vendor-purchaser relationship can be developed and maintained.

(c) Small units can be effective instruments in the mobilisation of localised resources (physical and financial) and entrepreneurial skills.

Thus small units wherever they are, seem to possess certain characteristic features of their own, the most important being location of the units.

Factors influencing location:

1. Conventional:

An industrial unit, irrespective of its size viz., large, medium or small is free to determine its own location depending on the following factors.

1. Nature of the product produced.
2. Raw materials required.
3. Type of labour needed, and
4. Marketability of the product.

All the above determinants are scientific and are bound to operate and influence location of an industrial unit to a considerable extent. These may be called, "conventional determinants of location."

2. Non-conventional:

There are certain other factors which play a major role in the selection of the place of manufacture.
A consideration of these generally arises after selection of the place of location, say a city, town or village. Every industrialist comes across this problem at the stage of implementing a proposal. Basically the choice of an industrialist, therefore, is limited to the following two factors viz.,

1. Selection of a locational site within the industrial estate\(^2\) or outside, and
2. Whether to own the site so selected or to go in for a rented one.

In case there is no industrial estate in the area, the entrepreneur can go in for a site within the city/town/village limits or away from its limits. The future of an industrial unit almost depends upon the decision at this stage. Thus, these two factors play an important role in determining the exact place of erecting a factory building. Therefore, they may be called 'non-conventional' determinants of location.

While conventional determinants influence almost all the industrial units belonging to a particular industrial group in a set pattern at 'macro' level, non-conventional determinants influence individual units independently and thus operate at the 'micro' level.

\(^2\) Meaning of an industrial estate - Details relating to industrial estates in Andhra Pradesh are given in Chapter II.
Influence of 'Non-conventional' determinants on location of small units:

Influence of non-conventional determinants on location of small units in Rayalaseema manifests in more than one form. Important among them are the following:

(1) Benefits of selecting a site within an industrial estate:

Small units enjoyed certain benefits if they are located within an industrial estate. Major benefits are:

(1) Land for erecting a factory shed is provided to the entrepreneur at a concessional rent. If the industrialist opts to purchase the land, he is permitted to pay the cost in instalments.

(2) All facilities like supply of water and power, proper roads and discharge of effluents, etc., are provided by the Industrial Development Corporation at reasonable cost.

(3) An Industrial Development Officer is put in charge of the estate who attends to the specific requirements of the industrial units located within the estate.

(4) The Industrial Development Corporation also undertakes construction of factory sheds, wherever necessary and allot them to the entrepreneurs.
2) Benefits of selection of site outside industrial estate:

If a unit is located within the city/town/village limits, but outside the industrial estate, the following are the advantages:

(1) The industrialist will be in close touch with the market. As the production centre is in proximity to the market, the cost of transporting finished goods to the sale point is minimised.

(2) Establishment costs will be at a low level if the production centre and the sale points are situated at the same place.

(3) Size of the site and the plan of constructing the factory shed would be at the choice of the entrepreneur.

(4) Often the cost of the site can be settled in a bargain.

(5) Transport facilities are also assured.

3) Drawbacks:

Though both the alternatives mentioned above have their own merits, they also suffer from certain drawbacks.

(1) In the case of all industrial estates, since the rates of rentals as well as sale prices of plots are specified by the Government agencies, there is no scope for any bargaining.
(2) The area of a plot is predetermined and is not left to the choice of the entrepreneur.

(3) Many industrial estates are located far away from the centre of towns. Hence, conveyance between the estate and the town remains a permanent problem.

Position in Rayalaseema:

(a) Industrywise Position:

In Rayalaseema districts the average distance between the nearest towns and an industrial estate by road ranges between 3 kms to 11 kms. Nearest Railway Station is 3 kms to 15 kms away. The following Table shows the list of Industrial Estates covered under this study and details relating thereto.

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Name of the Industrial Estate and District</th>
<th>Name of the nearest town</th>
<th>Distance between town/Rly.Stn. (by road)</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>Anantapur 1. A.P.I.E. Anantapur</td>
<td>Anantapur</td>
<td>4</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Long route buses ply</td>
<td>do</td>
</tr>
<tr>
<td>(2)</td>
<td>Chittoor 2. R.I.E. Sadlapalle</td>
<td>Hindupur</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>do</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3. A.P.I.E. Chittoor</td>
<td>Chittoor</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>do</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4. A.P.I.E. Tirupati</td>
<td>Tirupati</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>do</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5. I.E.Srikalahasti</td>
<td>Srikalahasti</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>do</td>
<td></td>
</tr>
<tr>
<td>(3)</td>
<td>Cuddapah 6. I.E. Cuddapah</td>
<td>Cuddapah</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>No conveyance</td>
<td>Long route buses ply</td>
</tr>
<tr>
<td></td>
<td>7. A.P.I.E. Proddatur</td>
<td>Proddatur</td>
<td>4</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Town service available</td>
<td>do</td>
</tr>
<tr>
<td>(4)</td>
<td>Kurnool 8. A.P.I.E. Adoni</td>
<td>Adoni</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>No conveyance</td>
<td></td>
</tr>
<tr>
<td></td>
<td>9. I.E.Kurnool</td>
<td>Kurnool</td>
<td>6</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>do</td>
<td></td>
</tr>
<tr>
<td></td>
<td>10. I.E.Kurnool</td>
<td>Nandyal</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: Data collected and Field Study Notes.
It was observed that only one industrial estate viz., Nandyal is having town service road transportation between the estate and the nearby town. Six out of ten estates surveyed are located on State or District highways. Though buses ply frequently on these routes, there is no guarantee that they stop at the estate to drop or pick up passengers. In the case of Cuddapah, Kurnool and Adoni not even long distance buses are plying between the towns and estates as the estates are located in a far away place which is not connected by either highway. Plans are drawn in these places to operate bus services. All this only tells us about the poor transport facilities between Industrial Estates and nearby cities or towns in areas covered under this study.

In the case of units established within the town limits the major problems are:

(a) High rates of property tax and

(b) Wild fluctuations in rents and prices of land.

To test the influence of non-conventional determinants on the location of units, the relevant data has been analysed and projected in the following table.
### TABLE 46

**TABLE SHOWING LOCATION OF INDUSTRIAL UNITS IN RAYALASEEMA:**

(Industry-wise)

<table>
<thead>
<tr>
<th>Industry Code No.</th>
<th>Industry Group</th>
<th>Total No. of units</th>
<th>Units located</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Within Industrial Estate</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>No. % to total</td>
</tr>
<tr>
<td>20 &amp; 21</td>
<td>Food Products</td>
<td>58</td>
<td>6</td>
</tr>
<tr>
<td>22</td>
<td>Beverages</td>
<td>10</td>
<td>2</td>
</tr>
<tr>
<td>26</td>
<td>Hosiery and garments</td>
<td>24</td>
<td>3</td>
</tr>
<tr>
<td>28</td>
<td>Paper Products</td>
<td>62</td>
<td>2</td>
</tr>
<tr>
<td>29</td>
<td>Leather Products</td>
<td>12</td>
<td>1</td>
</tr>
<tr>
<td>30</td>
<td>Rubber and Plastic</td>
<td>24</td>
<td>11</td>
</tr>
<tr>
<td>31</td>
<td>Chemicals</td>
<td>74</td>
<td>9</td>
</tr>
<tr>
<td>32</td>
<td>Mineral Products</td>
<td>36</td>
<td>7</td>
</tr>
<tr>
<td>34</td>
<td>Metal Products</td>
<td>92</td>
<td>31</td>
</tr>
<tr>
<td>35</td>
<td>Machinery and Machine Tools</td>
<td>20</td>
<td>1</td>
</tr>
<tr>
<td>36</td>
<td>Electrical and Electronics</td>
<td>14</td>
<td>9</td>
</tr>
<tr>
<td>37</td>
<td>Transport equipment</td>
<td>12</td>
<td>1</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>438</strong></td>
<td><strong>83</strong></td>
</tr>
</tbody>
</table>

**Note:** (1) Figures relate to Small Units in the sample.
(2) For further details please refer to Table VI in Appendix.

**Source:** Data collected.
LOCATION OF SMALL INDUSTRIAL UNITS IN RAYALASEEMA

INDUSTRY CODE NUMBER

PERCENTAGES

Legend

Outside
Analysis:

It can be observed from the data that, in respect of Electrical and Electronics group, Rubber and Plastics and Metal products the percentage of units located inside an industrial estate is 64.29%, 45.83% and 33.70% respectively. In all other groups this percentage is less than 20.

96% of units in the group of paper products are outside the estate. 95% of the units in machinery and machine tools group, 91.67% of leather products units and about 90% of Food products units are situated outside an industrial estate.

On an average about 19% of the units in various industrial groups are located inside an industrial estate. 81% of the units are located outside.

(b) Position in different districts:

The following table projects the locational pattern of small units in different districts.
TABLE 47

TABLE SHOWING DETAILS ON THE LOCATION OF SMALL SCALE UNITS IN RAYALASEEMA (DISTRICT-WISE)

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Name of the District</th>
<th>No. of sample units</th>
<th>Location of units</th>
<th>Inside an Ind. Estate</th>
<th>Percentage to sample in the District</th>
<th>Outside an Ind. Estate</th>
<th>Percentage to sample in the District</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Anantapur</td>
<td>86</td>
<td></td>
<td>15</td>
<td>17.44</td>
<td>71</td>
<td>82.56</td>
</tr>
<tr>
<td>2.</td>
<td>Chittoor</td>
<td>134</td>
<td></td>
<td>17</td>
<td>12.69</td>
<td>117</td>
<td>87.31</td>
</tr>
<tr>
<td>3.</td>
<td>Cuddapah</td>
<td>104</td>
<td></td>
<td>26</td>
<td>25.00</td>
<td>78</td>
<td>75.00</td>
</tr>
<tr>
<td>4.</td>
<td>Kurnool</td>
<td>114</td>
<td></td>
<td>25</td>
<td>21.93</td>
<td>89</td>
<td>78.07</td>
</tr>
<tr>
<td></td>
<td>Rayalaseema</td>
<td>438</td>
<td></td>
<td>83</td>
<td>18.95</td>
<td>355</td>
<td>81.05</td>
</tr>
</tbody>
</table>

Source: Based on questionnaires administered and data collected.

Among the four districts units located outside the estate is maximum in Chittoor (87.31%), followed by Anantapur (82.56%) and Kurnool (78.07%). Of all the districts the minimum percentage is noticed in Cuddapah (75.00%).

The percentage of units located inside an industrial estate is maximum in Cuddapah at 25.00%. Second in order comes Kurnool (21.93%) followed by Anantapur (17.44%). The minimum percentage is with Chittoor at 12.69%.
It can therefore be seen that both industrywise and districtwise the industrial units are mostly located outside the industrial estate.

Reasons for location outside the Estate:

Our enquiry revealed the following reasons for selecting the respective locations:

1. Products of majority units have only local market.

2. Non-availability of proper and timely transport facility between the town and the estate.

3. Size of the site offered in an Estate not being suitable.

4. Delay in development of and assignment of plots in an Estate.

5. Selection of site very near to the market reduces the transport costs and other establishment charges.

Reasons for favouring a site within an Industrial Estate:

1. Products of majority units located in different Estates have market in other states only. So, it makes no difference to the entrepreneur, wherever the location is.

(3) Market share of a small unit is discussed in the following pages.
2. High Tension (H.T.) Power Supply is comparatively costlier outside an Estate.

3. Large sites are required to store raw materials and other products. These sites are costlier outside an Estate compared to the costs within.

4. Local authorities may object for establishment of certain factories within town limits for reasons of air pollution, public disturbance and problems of disposal of effluents, etc. Hence, within an estate earmarked for the same.

As Dhar and Lydall put it, the Industrial Estates are expected to: (4)

(i) relieve the existing congestion in Industrial Areas and big towns and thus serve as a tool of city planning.

(ii) stimulate growth of small industries in the townships surrounding some major industrial plants and thus promote growth of auxiliary industries.

(iii) decentralise industry towards small towns and large villages and thus control urban growth and regulate location of industries.

All these are possible only when required facilities are provided. Eg.,

1. Transport between industrial estate and the town,

2. Internal roads,

---

3. Allotment and handing over possession of plots to industrialists at the minimum possible time.

4. Avoiding frequent revision of rates even for transactions which were closed are provided.

It has been observed that such facilities are not made available in many industrial estates. It is noticed that in majority of the cases the industrialists were given possession of the site only after a minimum period of six months from the date of allotment. Even allottees purchasing plots on outright sale basis were asked to pay extra amount after a lapse of three or four years, towards the cost of the plot. The authorities, when questioned of this anomaly, pleaded that they were made to pay extra to the land owner from whom the land was acquired, according to Court orders. This appears to be a lame excuse. The allottee should not be made to suffer financially after a lapse of three or four years for a dispute between Government and the landlord.

Idleness in utilisation of plots:

As per the information available with the Andhra Pradesh Industrial Infrastructure Corporation, only 60% of the plots in various estates were allotted and taken possession of by the allottees. Of them only in 25% sheds were erected and work is progressing.
The remaining plots are either idle or unoccupied. In some estates the sheds meant for industrial units have been used for residential and other purposes. For instance, Chittoor, Cuddapah, Nandyal and Kurnool Industrial Estates, sheds raised on plots for industrial purposes were let out for residential accommodation. This is the surest way of indicating the state of non-performance by an industrial estate. Perhaps, it is one of the symptoms of the malady out of which not only the small scale units, but also industrial estates are suffering. Consequently the operative efficiency of a small unit suffers, which may also result in inefficiency of an estate.

This also shows that the entrepreneurs are not enthusiastic to establish units in the Industrial Estates. The estates also have not succeeded in attracting small industrialists into their fold. In this context the Estimates Committee has rightly pointed out that "One of the major criteria for setting up the estates viz., decentralisation of industrial development remain unfulfilled." (6)

(5) Such cases were noted as defunct units and hence vacancies of sheds.
Land and Buildings Owned or rented:

Entrepreneurs may secure their accommodation either on (1) Hire purchase (2) lease (3) rent or (4) some may possess their own accommodation. This depends on individual preferences and requirements of developing situations. Industrial Estates also provide in the above four categories, besides some private parties.

In this background an attempt is made to find out the preferences of individual entrepreneurs in respect of securing own or rental accommodation. For this purpose, accommodation secured on hire purchase basis is also treated as owned as the ultimate outcome of this exercise is to end up with owned accommodation.

Groupwise analysis:

First let us see the position in different industry groups. In the twelve industry groups analysed, more than 80% of the units in the mineral products group (Code 32) have own accommodation followed by Electrical and Electronics group (Code 36) with 74% and Beverages group (Code 22) with 70%. Least percentage is observed in Leather products Group (Code 29) with 25%. This percentage of units having own accommodation in different groups range between 25 and 80%.
Districtwise Analysis:

Districtwise the position of preference to possess own or rented accommodation is as under:

TABLE 48

TABLE SHOWING THE NUMBER OF INDUSTRIAL UNITS HAVING RENTED ACCOMMODATION

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Districts</th>
<th>Total No. of sample units</th>
<th>No. of Units having accommodation</th>
<th>% to total</th>
<th>No. of Units having rented accommodation</th>
<th>% to total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Anantapur</td>
<td>86</td>
<td>54</td>
<td>62.79</td>
<td>32</td>
<td>37.21</td>
</tr>
<tr>
<td>2</td>
<td>Chittoor</td>
<td>134</td>
<td>58</td>
<td>65.67</td>
<td>46</td>
<td>34.33</td>
</tr>
<tr>
<td>3</td>
<td>Cuddapah</td>
<td>104</td>
<td>63</td>
<td>60.58</td>
<td>41</td>
<td>39.42</td>
</tr>
<tr>
<td>4</td>
<td>Kurnool</td>
<td>114</td>
<td>72</td>
<td>63.16</td>
<td>42</td>
<td>36.84</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>438</td>
<td>277</td>
<td>63.24</td>
<td>161</td>
<td>36.76</td>
</tr>
</tbody>
</table>

Source: Table constructed from the data collected.

As seen from the above table, 65.67% of the industrialists possess own accommodation in Chittoor District. But in Kurnool only 63.16% have own land and buildings followed by Anantapur at 62.79% and Cuddapah at 60.58%. The range of entrepreneurs having own accommodation is between 60.58 and 65.67%, whereas industrialists with rented accommodation range between 36.84 and 39.42% only. Maximum percentage occupying rented premises is noticed in Cuddapah District.
Thus out of the total units contacted 63.24% are located in own premises and 36.76% are accommodated in rented premises. This fact leads us to the conclusion that a majority of the industrialists prefer own premises though initial investment is heavy.

Regional analysis:

To have a clear idea whether the same pattern is available in the entire region, the information is further analysed and the results are shown below.

TABLE 49

<table>
<thead>
<tr>
<th>S. No.</th>
<th>District</th>
<th>No. of sample units</th>
<th>Owned Within Industrial estate</th>
<th>Outside Total</th>
<th>Rented Within Industrial estate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Anantapur</td>
<td>86</td>
<td>11</td>
<td>43</td>
<td>54</td>
</tr>
<tr>
<td>2</td>
<td>Chittoor</td>
<td>134</td>
<td>14</td>
<td>74</td>
<td>88</td>
</tr>
<tr>
<td>3</td>
<td>Cuddapah</td>
<td>104</td>
<td>20</td>
<td>43</td>
<td>63</td>
</tr>
<tr>
<td>4</td>
<td>Kurnool</td>
<td>114</td>
<td>20</td>
<td>52</td>
<td>72</td>
</tr>
<tr>
<td></td>
<td>Total Region</td>
<td>438</td>
<td>65</td>
<td>212</td>
<td>277</td>
</tr>
</tbody>
</table>

Source: Data collected.

It can be seen from the above that out of 83(65+18) units located within an industrial estate,
65 accounting to 76.47% enjoy the facility of owned premises. Even in the case of units located outside the estates out of a total of 355 (212 + 143), 212 accounting to 59.22% are located in own premises. Thus, out of 438 units covered 277 units accounting to 63.24% possess owned land and buildings.

This finding strengthens our previous observation that majority units prefer to have owned accommodation rather than rented accommodation irrespective of its location.

Arguments favouring (A) own accommodation:

(1) The plot when owned can be made use of either for erecting a permanent factory building or a temporary structure or partly for both. The area to be covered in each case also depends upon individual needs. Expansion of the building in case of need poses no problem. If the premises is rented, the permission of the landlord is required and everything depends upon the agreement between the landlord and the lessee.

(2) Permanent arrangements for supply of water, power, discharge of effluents can be made.

(3) Provision for Railway sidings can also be thought of depending upon the needs.

(4) Recurring expenditure can be avoided.
(B) Arguments favouring Rented accommodation:

Advantages as mentioned under (A) may not be available to an industrialist choosing to have rented accommodation. But, such entrepreneurs argue that they enjoy another set of advantages viz.,

(1) in respect of rented accommodation, initial investment on landed property will be minimum and hence the total investment required for establishing a unit will be less.

(2) If the unit is to be expanded, it can be easily shifted to another premises as it may require spacious accommodation.

(3) Rent paid being of a revenue nature can be shown in the profit and loss account as an allowable expenditure for computation of net profit.

2. Age of Small Scale Units:

The history of small industry in India dates back to a few thousands of years. This applies even to Andhra Pradesh in general and Rayalaseema in particular, for Srikesalasti in Chittoor district is known for its 'Kalankari' Art pieces and bronze idols of Gods and Goddesses since times immemorial. One of the special features of this art is that pictures are printed on canvas with vegetable colours and then carved on bronze
moulds by artisans in the same form. This was considered to be an important small industry. It is unfortunate that this art is disappearing in recent years. The Government of Andhra Pradesh is taking steps to revive this art and develop this into its old splendour.

In order to find out the average age of a small unit in the State and trace the development of small sector, all the units were brought under four age groups viz.,

1. Less than 5 years
2. between 5 and 10 years
3. between 11 and 15 years and
4. over 15 years.

The emerging picture is as under.
### TABLE 50

**DISTRIBUTION OF SMALL UNITS IN RAYALASEEMA UNDER DIFFERENT AGE GROUPS**

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Age Group</th>
<th>Districts</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Anantapur</td>
<td>Chittoor</td>
</tr>
<tr>
<td>1.</td>
<td>5 years and below (started after 1975)</td>
<td>25 (29.07)</td>
<td>42 (31.34)</td>
</tr>
<tr>
<td>2.</td>
<td>Between 5 &amp; 10 years (Started after 1970)</td>
<td>25 (29.07)</td>
<td>43 (32.09)</td>
</tr>
<tr>
<td>3.</td>
<td>Between 10 &amp; 15 years (started after 1965)</td>
<td>21 (24.42)</td>
<td>20 (14.93)</td>
</tr>
<tr>
<td>4.</td>
<td>15 years and above (started prior to 1965)</td>
<td>15 (17.44)</td>
<td>29 (21.64)</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>86 (100.00)</td>
<td>134 (100.00)</td>
</tr>
</tbody>
</table>

**Note:**
1. Age is reckoned to be as on December 1980.
2. Figures in parentheses indicate percentages.

**Districtwise analysis:**

It can be observed from the table that only 24% of the sample units are aged above 15 years i.e., started prior to 1965. Out of 106 units aged above 15 years 36 (33.96%) units are in Kurnool district. This accounts to 31.58% of the
total number of units in the district. 26 units (24.52%) are in Cuddapah accounting for 25% of the units in the district.

In Chittoor 29 units (27.36%) aged above 15 years account to 21.64% of the total units in the district. In Anantapur District only 15 units (17.44%) are over 15 years of age. Thus the percentage of units completing 15 years of age range between 17.44% to 31.58% in different districts of the region.

In the case of units in the age group of 10 to 15 years the percentage ranges between 14.91 to 24.42%. Under this group units must have been started between 1966-70. Maximum growth in this period can be noticed in Anantapur as out of 78 units falling in this group 21 are in this district.

By 1980, units started between 1970 and 1975 must be in the age group between 5 to 10 years. Maximum development is noticed during this period in Chittoor followed by Anantapur, Cuddapah and Kurnool respectively.

In the group of units with the age of less than 5 years the maximum growth is noticed in
Chittoor District (42 units out of 135 or 31%) followed by Kurnool, Cuddapah, Anantapur Districts respectively.

Among the units surveyed, it is learnt that the oldest unit was started in 1916 in Cuddapah District. It is surprising to note that over a period of 64 years this unit has not shifted its business premises even once despite enormous expansion in its activities. This unit was registered in 1963, as a small scale unit. Likewise the youngest is in Anantapur which was started in 1979.

**Industry groupwise analysis:**

Among all the industrial groups maximum percentage of old units are found in the groups of food (41.38%) and paper products (32%) respectively, followed by the groups of Mineral and leather products. In the age group of 11 and 15 years maximum units are found again in the group of food products (29.31%) followed by Machinery and Machine tools.

In seven out of twelve groups studied on an average more than 33% of the units fall in the age group of 5 to 10 years. The percentage range is between a minimum of 17.74% and a maximum of
57.14%. In respect of units started after 1976 the percentage is between 8.62% and 60.00 percent.

The above details are shown in the table below.

**TABLE 51**

**TABLE SHOWING THE AGE GROUPS OF UNITS IN DIFFERENT CATEGORIES**

<table>
<thead>
<tr>
<th>Industry Code No.</th>
<th>5 years and below</th>
<th>Between 5 and 10 years</th>
<th>Between 10 and 15 years</th>
<th>15 years above</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 &amp; 21</td>
<td>8.62</td>
<td>20.69</td>
<td>29.31</td>
<td>41.38</td>
<td>100</td>
</tr>
<tr>
<td>22</td>
<td>60.00</td>
<td>-</td>
<td>20.00</td>
<td>20.00</td>
<td>100</td>
</tr>
<tr>
<td>26</td>
<td>50.00</td>
<td>33.33</td>
<td>16.67</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>28</td>
<td>33.87</td>
<td>17.74</td>
<td>16.13</td>
<td>32.26</td>
<td>100</td>
</tr>
<tr>
<td>29</td>
<td>25.00</td>
<td>33.33</td>
<td>16.67</td>
<td>25.00</td>
<td>100</td>
</tr>
<tr>
<td>30</td>
<td>50.00</td>
<td>33.34</td>
<td>8.33</td>
<td>8.33</td>
<td>100</td>
</tr>
<tr>
<td>31</td>
<td>41.89</td>
<td>24.32</td>
<td>13.51</td>
<td>20.28</td>
<td>100</td>
</tr>
<tr>
<td>32</td>
<td>22.22</td>
<td>30.56</td>
<td>16.66</td>
<td>30.56</td>
<td>100</td>
</tr>
<tr>
<td>34</td>
<td>27.18</td>
<td>28.26</td>
<td>20.65</td>
<td>23.91</td>
<td>100</td>
</tr>
<tr>
<td>35</td>
<td>20.00</td>
<td>40.00</td>
<td>25.00</td>
<td>15.00</td>
<td>100</td>
</tr>
<tr>
<td>36</td>
<td>35.75</td>
<td>57.14</td>
<td>-</td>
<td>7.14</td>
<td>100</td>
</tr>
<tr>
<td>37</td>
<td>25.00</td>
<td>41.67</td>
<td>8.33</td>
<td>25.00</td>
<td>100</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>30.82</strong></td>
<td><strong>27.17</strong></td>
<td><strong>17.81</strong></td>
<td><strong>24.20</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Data collected.
SMALLUNITS—AGE GROUPS

- 5YEARS and BELOW: 30.82%
- 5 and 10YEARS: 27.17%
- 10 and 15YEARS: 17.81%
- 15YEARS and ABOVE: 24.2%
Regional character:

As can be observed from the above table that 24.20% of the units in Rayalaseema were started prior to 1965. 17.61% between 1965-70, 27.17% between 1970-75 and 30.81% after 1975. Thus it is clear that nearly 58% of small units were started only after 1970. A slow pace of development was noticed in the period between 1965 and 1970 (the early days of planned development for small scale industries in the country). Therefore, the conclusion is that the planned development of small scale sector in this area is only a decade old and hence is in its initial stages.

3. Forms of Small Sector:

The managerial pattern of an industrial unit may be Proprietory, Partnership, Joint Stock Company (Public or Private Limited) Co-operative Society or an association of persons like a Hindu undivided Family (HUF), etc. The type of the management depends upon the requirements of the situation and the ease with which it can be brought into being. Each one has its own merits and demerits. Let us look into their utility in the context of the requirements of a small scale unit.

Sole Proprietorship:

Sole proprietorship is a form of organisation in which an individual invests capital, uses own skill and
intelligence in the management of its affairs. He is solely responsible for the results of its operations. This form is also known as individual entrepreneurship. This is the oldest and most common form of organisation found in small sector as there is no need for detailed legal formalities to be gone through. But the liability is unlimited. In this case, the industrialist and his industrial activity are highly integrated. He is the sole authority to decide, plan and control the unit. Nearly 67% of small scale industries in India are proprietary concerns. (7)

**Partnership organisation:**

Generally we find that small units managed by individual owners suffer from lack of required capital or managerial skill. Such units requiring additional investment or managerial skill can be converted into partnership firms. The formation and management of partnership organisation are governed by the provisions of the Indian Partnership Act of 1932. According to the Act a "Partnership is the relation between persons who agreed to share the profits of a business carried on by all or by any one of them acting for all."

---

Generally the duties and rights of partners, the type of business to be carried on by them, method of sharing profits/losses are shown in a Partnership Deed.

While 35% of the small scale units are partnership firms in the country, 34% of the units are owned by partnership firms in Rayalaseema.

Joint Stock Companies:

An expansion of partnership activity with the association of more members who contribute to its capital is called Joint Stock Company. This form of organisation is governed by the Indian Companies Act, 1956 as amended up to date. There should be a licence from the Government and Registrar of Joint Stock Companies to start an organisation. In small scale sector this form of organisation is not common probably due to the complicated and cumbersome legal formalities involved in floating a company. Only 30% of the units are in this form in the country and in Rayalaseema. Only 1.14% of the units are in this form.

The Cooperatives:

These are associations of persons who join for the betterment of their common economic interests, voluntarily. The International Labour Organisation (I.L.O.) defines
co-operatives as, "an association of persons usually of limited means, who voluntarily joined together to achieve a common economic end through the formation of a democratically controlled business organisation, making an equitable contribution to the capital required and accepting a fair share of risks and benefits of the undertaking." (8) Even this type is not popular among small units as only 0.7 per cent of such units are run in this form in the country. In Rayalaseema only 0.69% of units are in the co-operative form.

Other forms:

A few other forms are voluntary associations and HUPs. These forms are not popular in small sector either at the National level or at the regional level. Only 0.25% of the units in Rayalaseema are run by other forms of organisation.

Organisational patterns in Rayalaseema:

(a) Districtwise pattern:

The following table shows the details of patterns of organisation in different Districts of Rayalaseema.

(8) Ibid: p.43-44
TABLE 52

TABLE SHOWING THE PATTERNS OF ORGANISATIONS IN SMALL SECTOR

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Form of Organisation</th>
<th>Anantapur</th>
<th>Chittoor</th>
<th>Cuddapah</th>
<th>Kurnool</th>
<th>Total Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Proprietary</td>
<td>67.44</td>
<td>61.19</td>
<td>59.62</td>
<td>68.42</td>
<td>63.93</td>
</tr>
<tr>
<td>2.</td>
<td>Partnership</td>
<td>31.40</td>
<td>35.09</td>
<td>38.46</td>
<td>30.70</td>
<td>34.02</td>
</tr>
<tr>
<td>3.</td>
<td>Joint Stock Company</td>
<td>1.16</td>
<td>0.75</td>
<td>1.92</td>
<td>0.88</td>
<td>1.14</td>
</tr>
<tr>
<td>4.</td>
<td>Co-operatives</td>
<td>-</td>
<td>2.42</td>
<td>-</td>
<td>-</td>
<td>0.69</td>
</tr>
<tr>
<td>5.</td>
<td>Others</td>
<td>-</td>
<td>0.75</td>
<td>-</td>
<td>-</td>
<td>0.23</td>
</tr>
</tbody>
</table>

100.00 100.00 100.00 100.00 100.00

Note: Figures indicate percentages.

Source: Data collected.

The above table indicates that while 68.42% of the small units are proprietary concerns in Kurnool, their percentage is 67.44 in Anantapur followed by Chittoor and Cuddapah with 61.19% and 59.62% respectively.

Maximum number of Partnership firms are available in Cuddapah (38.46%) followed very closely by Chittoor (35.07%) and Anantapur (31.40%). In Kurnool only 30.7% of units are partnership firms. More Joint Stock Companies are seen in Cuddapah (1.92%), Anantapur (1.16%), Kurnool (0.88%) and Chittoor (0.75%).
Co-operatives and other forms are seen only in Chittoor District at 2.24% and 0.75% respectively.

**Industrywise ownership pattern:**

The following table gives the position of the various types of organisations present in different industry groups in the region.

**TABLE 53**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>20 &amp; 21</td>
<td>Food Products</td>
<td>60.35</td>
<td>39.65</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>22</td>
<td>Beverages</td>
<td>20.00</td>
<td>70.00</td>
<td>10.00</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>26</td>
<td>Hosiery &amp; Garments</td>
<td>91.67</td>
<td>8.33</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>28</td>
<td>Paper products</td>
<td>70.97</td>
<td>27.42</td>
<td>-</td>
<td>1.61</td>
<td>-</td>
</tr>
<tr>
<td>29</td>
<td>Leather products</td>
<td>58.33</td>
<td>33.33</td>
<td>-</td>
<td>-</td>
<td>8.33</td>
</tr>
<tr>
<td>30</td>
<td>Rubber and plastics</td>
<td>66.67</td>
<td>33.33</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>31</td>
<td>Chemicals</td>
<td>70.27</td>
<td>25.68</td>
<td>4.05</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>32</td>
<td>Mineral products</td>
<td>72.22</td>
<td>27.78</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>34</td>
<td>Metal products</td>
<td>66.30</td>
<td>30.43</td>
<td>1.09</td>
<td>2.17</td>
<td>-</td>
</tr>
<tr>
<td>35</td>
<td>Machinery &amp; Machine tools</td>
<td>25.00</td>
<td>75.00</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>36</td>
<td>Electrical &amp; Electronics</td>
<td>21.43</td>
<td>78.57</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>37</td>
<td>Transport Equipment</td>
<td>58.33</td>
<td>41.67</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>63.93</strong></td>
<td><strong>34.02</strong></td>
<td><strong>1.14</strong></td>
<td><strong>0.69</strong></td>
<td><strong>0.23</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Data collected.
Analysis:

(1) Proprietary concerns:

From the above table maximum number of proprietary concerns can be seen in Garments industry (91.67%) and Mineral Products (72.22%). Minimum percentages are observed in Beverages (20.00%) and Electrical and Electronics group (21.43%). Thus the percentage range of proprietary concerns is between 20 and 91.67% for all industry groups.

(2) Partnerships:

Maximum number of partnerships are noticed in Electrical and Electronics group at 78.57% closely followed by Machinery and Machine tools group at 75% and Beverages at 70%. This high percentage may be due to the fact that these groups require comparatively large capital and high degree of managerial skill. In all, the partnership firms range between 8.33% (in garments) and 78.57% (in Electrical and Electronics).

(3) Joint Stock Company:

Joint Stock form of organisations are seen only in Beverages (10.00%), Chemicals (4.05%) and Metal Products (1.09%).
Co-operatives:  

Co-operatives are seen only in Chittoor District in two groups viz., Paper products (1.61%) and Metal products (2.17%).

Private Organisation:  

Only one association of persons is found at Srikalahasti of Chittoor District and belongs to leather industry group.

From the above discussion it can be concluded that the majority of small units are in the form of proprietary concerns. This is seen with 63.93% of the units. Whereas partnership firms are noticed in 34.02% of the units. Joint Stock Companies, co-operatives and other forms account only for 1.14%, 0.69% and 0.23% respectively. If this picture is compared with the picture at All India level, almost the same pattern emerges. The following table indicates the pattern of ownership in different industrial groups at the All India level.
<table>
<thead>
<tr>
<th>S.No.</th>
<th>Industry</th>
<th>Proprietorship</th>
<th>Partnership</th>
<th>Joint Co.,</th>
<th>Co-operatives</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Food products</td>
<td>36.4</td>
<td>63.6</td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>2.</td>
<td>Printing Press</td>
<td>52.0</td>
<td>48.0</td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>3.</td>
<td>Leather products</td>
<td>62.0</td>
<td>38.0</td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>4.</td>
<td>Light Engineering</td>
<td>48.0</td>
<td>52.0</td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>5.</td>
<td>Electrical goods</td>
<td>25.0</td>
<td>75.0</td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>6.</td>
<td>Wooden products</td>
<td>60.0</td>
<td>39.0</td>
<td>1.0</td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>7.</td>
<td>Hosiery</td>
<td>63.0</td>
<td>36.0</td>
<td>1.0</td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>8.</td>
<td>General Engineering</td>
<td>58.0</td>
<td>38.0</td>
<td>3.0</td>
<td>1.0</td>
<td>100</td>
</tr>
<tr>
<td>9.</td>
<td>Soap</td>
<td>27.0</td>
<td>73.0</td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>10.</td>
<td>Electroplating</td>
<td>40.0</td>
<td>60.0</td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>11.</td>
<td>Foundries</td>
<td>43.0</td>
<td>57.0</td>
<td></td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>12.</td>
<td>Oil Mills</td>
<td>15.0</td>
<td>62.0</td>
<td>1.0</td>
<td>2.0</td>
<td>100</td>
</tr>
<tr>
<td>13.</td>
<td>Drugs</td>
<td>60.0</td>
<td>38.0</td>
<td>2.0</td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>14.</td>
<td>Utensils</td>
<td>55.0</td>
<td>46.0</td>
<td>1.0</td>
<td></td>
<td>100</td>
</tr>
<tr>
<td></td>
<td><strong>Sectoral Total</strong></td>
<td><strong>61.0</strong></td>
<td><strong>35.0</strong></td>
<td><strong>1-0</strong></td>
<td><strong>3.0</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: "Management of a Small Scale Industry"

DESAI V.: p. 47.
The above table shows that proprietary concerns are in maximum number in Hosiery, leather products and drugs (Chemicals). Apart from oil mills and soap units, partnership firms are in maximum number in Electrical units which correlates with the one available in Rayalaseema. Joint Stock Companies are more in General Engineering concerns, oil mills and Drugs. These are present in Beverages, Chemicals and metal products in Rayalaseema.

In this region cooperatives are seen in Paper and metal products (utensils included). But at the All India level these are noticed in wood products and Hosiery units in addition to utensil manufacturing units. Thus, in majority cases there is a similarity in forms of ownership both at the regional and national levels.

(4) Capital Employed: Long term and short term:

Capital is the amount of money or money's worth required to run a business or a manufacturing concern. This can be called as the life-blood of a unit. Capital can conveniently be divided into two categories viz., Long term or Fixed capital and short term or working capital based on the purpose for which it is used.
Long term capital is used to 'put the unit on the ground'. In other words, this amount is used to acquire fixed assets like land, buildings, machinery, patents, designs, trade marks, etc., required to establish a production or a business unit. Generally a major portion of the total investment is used for this purpose.

Amounts needed to 'make the unit to run' are called working capital. This is used to secure the day to day needs of a unit viz., raw materials, payment of wages or salaries, maintenance of machinery, etc. Thus working capital is used to run the business put on the ground by fixed capital.

Capital and Small Scale unit:

According to the latest definition, a small scale unit is one whose fixed capital investment is at or below Rs.20 lakhs. Thus a small unit can have a maximum fixed capital of Rs.20 lakh only.

The working capital requirements vary according to the production schedules and turnover of each unit. While determining their working capital needs, small entrepreneurs must allow for a reasonable period of time to elapse (usually six months to one year) before income from the business will cover regular monthly expenses. They must include in their estimates a
minimum salary sufficient to provide for their living expenses. *(9)*

There are various other factors to be reckoned with before the amounts required under the above two heads are determined. Though we may not go into such details at this stage, we have to know the range of the fixed investment in small units of Rayalaseema. For this purpose, all the small scale units are divided into five distinct groups viz., units with an investment of:

1. upto Rs. 10,000
2. between Rs. 10,001 and 50,000
3. between Rs. 50,001 and Rs. 1 lakh
4. between Rs. 1,00,001 and 5 lakhs and
5. above Rs. 5 lakhs.

This grouping is made for a detailed analysis of an emerging investment practice. The details are discussed in the following pages.

**Regional analysis:**

The following table presents the investment pattern in small scale units.

---

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Fixed Investment Range Rs.</th>
<th>District</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Anantapur</td>
<td>Chittoor</td>
</tr>
<tr>
<td>1.</td>
<td>Upto 10,000</td>
<td>30</td>
<td>32</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(21.38)</td>
<td>(11.64)</td>
</tr>
<tr>
<td>2.</td>
<td>10,001 to 50,000</td>
<td>83</td>
<td>140</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(58.86)</td>
<td>(50.91)</td>
</tr>
<tr>
<td>3.</td>
<td>50,001 to 1,00,000</td>
<td>15</td>
<td>42</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(10.64)</td>
<td>(15.27)</td>
</tr>
<tr>
<td>4.</td>
<td>1,00,001 to 5,00,000</td>
<td>13</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(9.22)</td>
<td>(18.18)</td>
</tr>
<tr>
<td>5.</td>
<td>Above 5,00,000</td>
<td>-</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(4.00)</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>141</td>
<td>275</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(100.00)</td>
<td>(100.00)</td>
</tr>
</tbody>
</table>

Note: (1) Table is compiled based on the data collected and the information given in Directory of SSI units A.P. Vol.V Cuddapah Region (1976).

(2) Figures relate only to units in selected industry groups.

(3) Figures in parentheses indicate percentages to total.

Source: Data collected.

As shown in Anantapur District 58.86% of the units have an investment spread of Rs. 10,001 to 50,000. 21.28% has an investment of less than Rs. 10,000. 9.22% units have a maximum capital spread between Rs. one to five lakhs. No unit has come into the category of above 5 lakhs.
Thus, in Anantapur, majority of units have fixed investment between ₹ 10,001 and ₹ 50,000.

In Chittoor 50.91% of units are in the second category while 18.18% are in the fourth category, i.e., between ₹ 1 lakh and ₹ 5 lakhs. 11.64% units are in the first category. Only 4% of units are in the maximum range of ₹ 5 lakhs and above. Even in Chittoor a good number of units have fixed investment between ₹ 10,001 and ₹ 50,000.

At Cuddapah 57.14% units are in the second category closely followed by 12.99% in third category and 12.34% in fourth group. 11.04% are in the first range. 6.49% units in the district are in the fifth or maximum range. Thus, in Cuddapah also majority units come up with an investment between ₹ 10,001 and ₹ 50,000.

Kurnool also has maximum number of units in the second range (63.83%). This is followed by units in third, fourth and first categories at 13.50%, 12.76% and 10.11% respectively. As in Anantapur in this district also no unit comes into the fifth group.

Industrywise patterns:

Industrywise, the maximum investment can be seen in mineral products. 50% of the total for all the
units coming into the fifty category belong to mineral products group. 62.8\% of the units in this group have investment of more than ₹.5 lakhs.

Minimum investment is noticed in leather products. Nearly 35\% of the units in this group own capital below ₹.10,000.

Many units in paper products (77\%), Beverages (65.75\%), Food products (66\%), Chemicals (62.86\%) come into the second range. Thus, excepting leather and mineral products maximum units in all other groups have come into the second group. This can be better understood from the following table.
TABLE 56

TABLE SHOWING CONCENTRATION OF UNITS IN DIFFERENT INVESTMENT RANGES (INDUSTRY-WISE)

<table>
<thead>
<tr>
<th>Code No.</th>
<th>Industry Group</th>
<th>Investment in Rupees</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Below 10,000</td>
<td>10,001-50,000</td>
</tr>
<tr>
<td>20</td>
<td>Food Products</td>
<td>12</td>
<td>78</td>
</tr>
<tr>
<td>21</td>
<td>Beverages</td>
<td>1</td>
<td>11</td>
</tr>
<tr>
<td>22</td>
<td>Hosiery and Garments</td>
<td>11</td>
<td>19</td>
</tr>
<tr>
<td>26</td>
<td>Paper products</td>
<td>5</td>
<td>88</td>
</tr>
<tr>
<td>29</td>
<td>Leather products</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>30</td>
<td>Rubber &amp; Plastic</td>
<td>2</td>
<td>17</td>
</tr>
<tr>
<td>31</td>
<td>Chemicals</td>
<td>20</td>
<td>66</td>
</tr>
<tr>
<td>32</td>
<td>Mineral products</td>
<td>17</td>
<td>25</td>
</tr>
<tr>
<td>34</td>
<td>Metal products</td>
<td>18</td>
<td>74</td>
</tr>
<tr>
<td>35</td>
<td>Machinery and Machine tools</td>
<td>8</td>
<td>28</td>
</tr>
<tr>
<td>36</td>
<td>Electrical and Electronic</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>37</td>
<td>Transport Equipment</td>
<td>3</td>
<td>12</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>98</td>
<td>431</td>
</tr>
</tbody>
</table>

Note: Figures in parentheses represent percentages.

Source: Data collected.
SMALL UNITS - INVESTMENT
(in rupees)

10,000 TO 50,000: 56.86%
1 TO 5 LAKHS: 13.98%
5 LAKHS & ABOVE: 2.77%
BELOW 10,000: 12.93%
5000 TO 1 LAKH: 13.46%
It is observed from the above that 56.86% of small units are in the investment range of Rs. 10,001 and Rs. 50,000. 13.98% are in the range of Rs. 1,00,001 and Rs. 5 lakhs. In the range of Rs. 50,001 and Rs. 1 lakh we find only 13.46% of the units. 12.93% of units have investment below Rs. 10,000. Only 2.77 per cent of units have an investment of more than 5 lakhs. A detailed account of investment pattern both district-wise and industrywise is given in Table VIII Appendix-B.

This analysis leads us to the conclusion that the maximum fixed investment in an average small unit is in the range of Rs. 10,000 and Rs. 50,000. This finding is supported by a high percentage of proprietary units in the area.

5. Labour in Small Sector:

Labour force employed in an industry can rightly be compared to two hands of a human being, while the organisation can be treated as the brain. Labour employed in a unit may be of three categories, viz.,

(1) technical or skilled
(2) semi-skilled and
(3) unskilled.

The volume of recruitment in each category depends upon a number of factors like:

(1) Capital invested in the unit which determines the degree of mechanisation.
If the units are equipped with sophisticated machinery, only a few technical or skilled labourers are required. If the investment is less, productive capacity will also be less. This situation may also lead to the employment of minimum labourers.

(2) Nature of the product brought out:
If the production process is labour oriented more labour force is to be employed.

(3) Capacity utilisation of the plant:
If the plant works to full capacity, employment will be at the maximum. With the reduction in capacity utilisation employment in certain categories will also get reduced.

Districtwise pattern:

As observed previously, majority of the small units are proprietary concerns and the investment is below ₹ 50,000 in many cases. This situation affects the employment potential and hence the employment of labour is from minimal to moderate level. The following table projects the districtwise picture.
TABLE 57

<table>
<thead>
<tr>
<th>No. of labourers employed</th>
<th>Anantapur</th>
<th>Chittoor</th>
<th>Cuddapah</th>
<th>Kurnool</th>
<th>Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of labourers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Between 1 to 5</td>
<td>35</td>
<td>102</td>
<td>70</td>
<td>101</td>
<td>328</td>
</tr>
<tr>
<td></td>
<td>(39.01)</td>
<td>(37.09)</td>
<td>(45.46)</td>
<td>(53.72)</td>
<td>(43.27)</td>
</tr>
<tr>
<td>2. Between 6 to 15</td>
<td>72</td>
<td>125</td>
<td>58</td>
<td>62</td>
<td>317</td>
</tr>
<tr>
<td></td>
<td>(51.06)</td>
<td>(45.45)</td>
<td>(37.66)</td>
<td>(32.98)</td>
<td>(41.82)</td>
</tr>
<tr>
<td>3. Between 16 to 30</td>
<td>8</td>
<td>29</td>
<td>18</td>
<td>15</td>
<td>70</td>
</tr>
<tr>
<td></td>
<td>(5.67)</td>
<td>(10.55)</td>
<td>(11.69)</td>
<td>(7.98)</td>
<td>(9.24)</td>
</tr>
<tr>
<td>4. Above 30</td>
<td>6</td>
<td>19</td>
<td>8</td>
<td>10</td>
<td>43</td>
</tr>
<tr>
<td></td>
<td>(4.26)</td>
<td>(6.91)</td>
<td>(5.19)</td>
<td>(5.32)</td>
<td>(5.67)</td>
</tr>
<tr>
<td>Total</td>
<td>141</td>
<td>275</td>
<td>154</td>
<td>188</td>
<td>758</td>
</tr>
<tr>
<td></td>
<td>(100.00)</td>
<td>(100.00)</td>
<td>(100.00)</td>
<td>(100.00)</td>
<td>(100.00)</td>
</tr>
</tbody>
</table>

Note: Figures in parentheses indicate percentages.

Source: Data collected.

We can observe from the table above that in Anantapur 51% of the units have employed workers numbering between 6 to 15. 39% have less than 5 workers. 5.67% employ 16 to 30 persons. Only 4.26% units have more than 30 workers.

45% of the units in Chittoor belong to the second category while 37% are in the first. That means in 82% of the units maximum number employed is less than 15. Only 10.55% of the units fall into the 3rd range and about 7% of units are in
the fourth range with more than 30 persons employed.

Cuddapah District has maximum units in the first category (45-46%), followed by 37.66% units in the second range. Thus even in Cuddapah 83% of the units employ less than 15 persons each. As regards third and fourth ranges the position in Cuddapah seems to be closer to that of Chittoor.

In Kurnool also 53.72% units come into the first, 32.98% into the second, 7.98% into the third and 5.32% into the fourth groups respectively.

To sum up, in Anantapur and Chittoor the maximum percentage of units are in the second category whereas in Cuddapah and Kurnool maximum number of units are in the first range. When the percentage of groups 1 and 2 are aggregated the position is as under:

<table>
<thead>
<tr>
<th>District</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anantapur</td>
<td>90.07%</td>
</tr>
<tr>
<td>Chittoor</td>
<td>82.54%</td>
</tr>
<tr>
<td>Cuddapah</td>
<td>83.12%</td>
</tr>
<tr>
<td>Kurnool</td>
<td>86.70%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>85.61%</strong></td>
</tr>
</tbody>
</table>

Thus, on an average in 85.16% of the units the number of labourers employed range between 1 to 15 only.
INDUSTRYWISE ANALYSIS:

The position in different industry groups is as under:

Maximum labour is noticed in units manufacturing mineral products (Code No. 32). In this group, 21% of the units employ between 16 and 30 persons. In 20.93% of these units employment is of more than 30 persons. Some of these units employ labourers numbering upto 250. Only 11% of units employ below 5 persons. In 44% units employment is between 6 and 15.

Electricals and Electronics group occupies the second place (Code No. 36). 66.67% units of this group are in the third range, 20% in the fourth and 26.67% in the second range. Thus 53% of the units in this group go with a minimum of 6 workers.

Minimum employment is noticed in Beverages group (Code No. 22). 68.75% of the units have employed workers numbering between 1 to 5. A considerable number of units in this group were noticed to be one man units. In total 93.75% units belong to the first two categories. Next in the line come paper products (Code No. 28). Most of the units in this group are printing presses. 65.79% of the units employ less than 5 persons, 31.55% between 6 and 15 persons.
71.43% of units in Hosiery and Garments group (Code No. 26) employ between 6 and 15 persons. 20% units employ less than 5 persons. Details of other industry groups together with those discussed already are shown in the following table:

TABLE 58

<table>
<thead>
<tr>
<th>Industry Code No.</th>
<th>Total Units</th>
<th>No. of Units in different employment ranges</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>1 to 5</td>
</tr>
<tr>
<td>20 &amp; 21</td>
<td>118 (100)</td>
<td>70 (59.32)</td>
</tr>
<tr>
<td>22</td>
<td>16 (100)</td>
<td>11 (68.75)</td>
</tr>
<tr>
<td>26</td>
<td>35 (100)</td>
<td>7 (20.00)</td>
</tr>
<tr>
<td>28</td>
<td>114 (100)</td>
<td>75 (65.79)</td>
</tr>
<tr>
<td>29</td>
<td>17 (100)</td>
<td>10 (58.52)</td>
</tr>
<tr>
<td>30</td>
<td>33 (100)</td>
<td>12 (36.36)</td>
</tr>
<tr>
<td>31</td>
<td>105 (100)</td>
<td>37 (35.24)</td>
</tr>
<tr>
<td>32</td>
<td>86 (100)</td>
<td>10 (11.63)</td>
</tr>
<tr>
<td>34</td>
<td>148 (100)</td>
<td>54 (36.40)</td>
</tr>
<tr>
<td>35</td>
<td>48 (100)</td>
<td>25 (52.08)</td>
</tr>
<tr>
<td>36</td>
<td>15 (100)</td>
<td>7 (46.67)</td>
</tr>
<tr>
<td>37</td>
<td>23 (100)</td>
<td>10 (43.48)</td>
</tr>
<tr>
<td>Total</td>
<td>758 (100)</td>
<td>328 (43.27)</td>
</tr>
</tbody>
</table>

Note: (1) Figures in parentheses indicate percentage.
Regional pattern:

An analysis of the above table indicates that among all the industry groups mineral products appear to be labour intensive. Beverages has the minimum labour. In total 43.27% units employ less than 5 workers. 41.82% employ between 6 to 15 persons. Between 16 and 30 persons are employed in 9.23% of units and 5.67% units employ more than 30 workers.

Thus the maximum number of labourers employed in an average unit is 15 and the minimum number is one.

Relationship between forms of organisation, capital invested and labour employed:

In order to establish a relationship between forms of organisation, capital invested and labour employed, the data collected is analysed exhaustively.

All the units are divided into five groups based on the form of organisation, capital invested and the labour employed. The percentage of units falling in each group under each parameter is listed. Based on the density, the categories are given ranks 1 to 5. To arrive at the final placement of each category each rank is given a weightage as under.
The results arrived as above are used to determine the popularity of different categories in the small sector. Based on the above procedure the following tables are prepared.

**TABLE 59**

**TABLE SHOWING THE RELATIONSHIP BETWEEN FORM OF ORGANISATION, AND LABOUR EMPLOYED IN SMALL SECTOR**  
(Percentages)

<table>
<thead>
<tr>
<th>Category</th>
<th>Form of Organisation</th>
<th>Investment</th>
<th>Labour employed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Form</td>
<td>Density of occurrence</td>
<td>Rank</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>I Prop.</td>
<td>63.93</td>
<td>1</td>
<td>Below 10000</td>
</tr>
<tr>
<td>II Partner-ship</td>
<td>34.02</td>
<td>2</td>
<td>10-50 thousand</td>
</tr>
<tr>
<td>III Jts.Co.</td>
<td>1.14</td>
<td>3</td>
<td>50 th. -1 lkh.</td>
</tr>
<tr>
<td>IV Co-op.</td>
<td>0.69</td>
<td>4</td>
<td>1-5 lkh.</td>
</tr>
<tr>
<td>V. Others</td>
<td>0.23</td>
<td>5</td>
<td>5 and above (lakhs)</td>
</tr>
</tbody>
</table>

Source: Data collected (compiled from previous tables).
TABLE 60
RANK DETERMINATION OF DIFFERENT CATEGORIES SHOWN IN TABLE 59

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>1st Rank</th>
<th>2nd Rank</th>
<th>3rd Rank</th>
<th>4th Rank</th>
<th>5th Rank</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>1+1</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td>12</td>
</tr>
<tr>
<td>II</td>
<td>1+1</td>
<td>1</td>
<td></td>
<td>1</td>
<td></td>
<td></td>
<td>13</td>
</tr>
<tr>
<td>III</td>
<td>1+1+1</td>
<td></td>
<td>1+1</td>
<td></td>
<td></td>
<td></td>
<td>9</td>
</tr>
<tr>
<td>IV</td>
<td>1+1</td>
<td></td>
<td></td>
<td>1</td>
<td>1</td>
<td></td>
<td>8</td>
</tr>
<tr>
<td>V</td>
<td>1+1</td>
<td></td>
<td></td>
<td></td>
<td>1</td>
<td>1</td>
<td>2</td>
</tr>
</tbody>
</table>

Notes: Score is arrived as under:

eg., Category I = 5 + 5 + 2 = 12.

Source: Table 59.

The above two tables finally indicate that Categories II and I (in respect of different parameters viz., Form of Organisation, Investment and Labour employed) share closely the I and II ranks respectively. Thus, we can conclude that

(1) Partnership and proprietary forms of organisations are most common.

(2) In many small units investment is below Rs. 50,000.

(3) Maximum number of workers employed in an average small unit is 15.
6. EDUCATIONAL STANDARDS OF ENTREPRENEURS:

It is presumed that if an entrepreneur is educated his ability to manage the affairs of an industrial unit will be better. Higher the educational qualifications more would be his efficiency to manage. If the industrialist is technically qualified in the line of production, prospects for development of the unit will be bright. When education is mixed with the experience of the field, the industrialist will be in a better position to understand the problems of the unit and solve them quickly. Thus the unit can project all the traits of sound health. But the data at our disposal fails to indicate a sound educational base of many entrepreneurs both new and established. The following table projects that picture.
**TABLE 61**

TABLE SHOWING EDUCATION STANDARDS OF ENTREPRENEURS IN RAYALASEEMHA *

(Percentages only)

<table>
<thead>
<tr>
<th>S. No.</th>
<th>District</th>
<th>Education Standard</th>
<th>Total</th>
<th>Experience</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>No qualification</td>
<td>Primary to Secondary</td>
<td>College graduate</td>
</tr>
<tr>
<td>1.</td>
<td>Anantapur</td>
<td>-</td>
<td>64.58</td>
<td>29.17</td>
</tr>
<tr>
<td>2.</td>
<td>Chittoor</td>
<td>-</td>
<td>67.27</td>
<td>20.00</td>
</tr>
<tr>
<td>3.</td>
<td>Cuddapah</td>
<td>5.13</td>
<td>50.00</td>
<td>41.18</td>
</tr>
<tr>
<td>4.</td>
<td>Kurnool</td>
<td>3.13</td>
<td>53.12</td>
<td>37.50</td>
</tr>
<tr>
<td>Total</td>
<td>for the Region</td>
<td>1.78</td>
<td>60.36</td>
<td>30.17</td>
</tr>
</tbody>
</table>

Note: * While computing the above table, educational standard of the proprietors, partners and the directors were also taken into consideration. Similarly, experience in the line prior to establishment of the unit was also taken into account.

@ Passing the examination is not taken to be the criteria as many entrepreneurs were not willing to reveal this fact.

** These figures are out of every 100 entrepreneurs contacted.

Source: Data collected.

As per the table in Chittoor District, 67.27% of industrialists have education only up to secondary level. 20% have studied in college. 12.73% possess technical qualifications like L.M.E., L.E.E., L.C.E., B.E., etc. Several persons with engineering degrees
are running electrical and electronic units. Thus all entrepreneurs in the district are literates.

In Anantapur, it is noticed that 64.58% of industrialists have studied up to secondary school only. 29.17% have entered into the colleges at one time or the other. Only 6.25% of entrepreneurs have technical qualifications.

Kurnool has 53.12% of entrepreneurs with qualification up to high school level. 37.5% studied up to P.U.C. or degree level. 6.25% are technical graduates or diploma-holders. 3.13% have no education whatsoever.

At Cuddapah 50% of small industrialists have studied up to high school only. 41.18% had University education. But, only 2.94% have technical qualifications 5.88% have no education.

Coming to various industry groups in Electric and Electronic group 42.86% are technically qualified, 42.86% had academic degrees. Thus 85% of industrialists in this group have higher qualifications. As majority of the units in this group are aged less than 10 years, it can be said that this industry is of recent origin and is attracting young entrepreneurs with technical qualifications and experience.

This is followed by Beverages and Rubber and Plastic products groups. Under Beverages 66.67% of
industrialists have higher education followed by Rubber and Plastic group with 58%.

Majority industrialists with minimum qualifications (i.e., secondary school) are seen in Mineral products group, (81.25%), Hosiery and garments (87.50%), closely followed by paper products (79.27%). As a whole, 60.36% of small entrepreneurs have qualifications upto S.S.C., 30.17% have studied upto either P.U.C., or degree class, 7.69% are technically qualified. Only 1.78% are illiterates.

Thus, the average qualification of majority entrepreneurs is between primary and secondary school standards.

EXPERIENCE:

It is also an accepted fact that people with experience in a particular field of activity will fare better than raw hands in management. But, the data with us indicate that only 23.67% of entrepreneurs had previous experience in the field of activity chosen by them. As can be evident from the table the maximum percentage of experienced persons at 27.08 are seen in Anantapur District, followed by Chittoor with 25.45%. Cuddapah and Kurnool have 20.59% and 18.75% of experienced persons respectively.
In leather industry 71.43% of entrepreneurs are experienced. In beverages this percentage is 66%. Food products with 52% and Hosiery with 50% comes as third and fourth.

Thus, it is evident that 60.36% of small industrialists have studied up to secondary level. 23.67% of industrialists have experience in the field prior to entering the activity. The rest of 76.33% of industrialists are new to the field.

7. Market for the products:

Progress of any industrial unit also depends on the easy marketability of the finished products. If the market of a unit is wide and demand is constantly on the increase such unit can have busy production schedule. Otherwise the production schedule will be flexible and capacity utilisation may be very well below the rated capacity. Such units may become financially weak in the long run. Thus marketability of the products is an important determinant of the health of a unit. This principle applies both to big and small industry.

Products of a unit may have only internal market or only an export market or both. This depends upon the type of the product. If there is an export market, units producing such products will be earning foreign
exchange and thus help develop the national economy. If only internal market is available for a product, it may act as import substitution and hence the volume of imports of such product can be reduced. Such units will be saving foreign exchange to the exchequer and thus also help develop the economy. Thus in both the cases an industry can help the economic development of the country.

Internal market for a product may be available throughout the country or only in two or three states or regions. In the first case such product is said to enjoy national market. But in the second case the product is said to possess regional market. A product may move only in the State or in the district or surrounding districts where it is produced. In such case the product is said to be enjoying marketing in the State or the district as the case may be. If the product is sold only in the city, town or village, where it is manufactured such product is said to have a local market only. A product of an industrial unit may come under all or some or any one of the different types of markets discussed above.

Now let us see what is the position of marketability of the products of small units in Rayalaseema. The following table shows the actual position.

TABLE 62

MARKETABILITY OF PRODUCTS OF SMALL UNITS IN RAYALASEEWA DISTRICTS.

(Percentages to total units)

<table>
<thead>
<tr>
<th>S.No.</th>
<th>District</th>
<th>Within city/ town/ village</th>
<th>District only</th>
<th>State only</th>
<th>Regional/ national</th>
<th>Export</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Anantapur</td>
<td>44.44</td>
<td>20.00</td>
<td>6.67</td>
<td>28.39</td>
<td>-</td>
<td>100.00</td>
<td></td>
</tr>
<tr>
<td>2. Cuddapah</td>
<td>32.81</td>
<td>23.14</td>
<td>20.31</td>
<td>15.63</td>
<td>7.81</td>
<td>100.00</td>
<td></td>
</tr>
<tr>
<td>3. Chittoor</td>
<td>57.89</td>
<td>13.16</td>
<td>15.79</td>
<td>13.16</td>
<td>-</td>
<td>100.00</td>
<td></td>
</tr>
<tr>
<td>4. Eamool</td>
<td>44.44</td>
<td>11.11</td>
<td>11.11</td>
<td>33.33</td>
<td>-</td>
<td>100.00</td>
<td></td>
</tr>
</tbody>
</table>

Source: Data collected.

Table above reveals that 43.10% of the units have only local market. That means their products are sold only in the city, town or village where they are located. Districtwide market is available for 18.39% of units in the area. 14.37% units sell their products within the State. Only 21.26% units have nationwide or inter-State market for their products.

2.87% units export their products to foreign countries. On enquiry it was found that majority of the units having export market are located in Cuddapah district. These units produce Barytes powder (which is made from Barytes ore) and export to countries in the middle east.
We can conclude that nearly 75% of small units in Rayalaseema are having market for their products in a limited area like the State, district or locality. The marketing problems of a small scale unit are discussed exhaustively in subsequent chapters.

Conclusion:

Based on the above discussion, it can be said that the small sector is in its infant stage in Rayalaseema area and hence require lot of care, help and guidance both by the Government and other agencies.
The survey revealed that small industrialists prefer to establish their units outside the industrial estates in their own premises. 58% units in the area are found to be less than 10 years old. Majority of small units in the region have a minimum investment of ₹10,000 and a maximum of ₹50,000. The common form of organisation in the sector is found to be sole proprietary concerns. Employment potential of a small unit is observed to be an average of 15 workers. Majority of units in the area are found to possess only a limited market for their products.

It is evident that 60.36% of small industrialists have studied upto Secondary level. 7.69% are technically qualified. 23.67% of industrialists have experience in the field prior to entering the activity. The rest of 76.33% of industrialists are new to the field.

The co-operatives are seen in paper and metal products in large number at the regional level. But, at the all-India level these are noticed in wood products and hosiery units, in addition to metal products manufacturing units. In general, there is a similarity in forms of ownership both at the regional and national levels.
CHAPTER V

MATERIALS MANAGEMENT
CHAPTER V

MATERIALS MANAGEMENT

1. MEANING AND IMPORTANCE OF MATERIALS:

Every industrial activity requires materials and supplies to work with. There must be continuous supply of raw materials and other supplies to carry on the production activity without any interruption. Besides the quality of materials should also be in line with the production requirements.

Absence of any of the above requirements may result in inefficient production. This may also lead to production of low quality products and delay in meeting sales orders. All these can be set right with the help of scientific materials management.

In many manufacturing units about 50% to 60% of the cost of the product consists of material cost. Material is a major cost element and one of the major constituents of works cost of the concern. The contribution of the material cost would be very predominant in material oriented production activity. For instance, in a cotton textile mill a major cost element is the cost of cotton. Likewise in a sugar mill the major cost element is the cost of cane. In this background marginal reduction in material cost would result in reduction of sales price, increase in sales and finally profit maximisation.
**Definition of Materials Management:**

Materials management can be defined as 'a confederacy of traditional materials activities bound by a common idea—the idea of an integrated management approach to planning, acquisition, conversion, flow and distribution of production materials from the raw-material state to the finished product state.'(1)

**Major Functions:** Materials management includes all the functions of purchasing department, inventory management, traffic, receiving, storing and even production planning and control. It may even extend to marketing of the final product. The concept of integrated materials management encompasses all the activities from the stage of planning for material to the stage when the finished product is actually sold to the customer across the counter. However, major functions of Materials Management can be listed as under.

1. Purchasing
2. Inspection (including receiving)
3. Storing
4. Production Planning and Control.

A pictorial presentation of Materials Management cycle will be as shown below:

Material Management Cycle

(1) PURCHASING

PRODUCTION PLANNING AND MATERIALS MANAGEMENT INSPECTION INCLUDING (2) RECEIVING

STORING (3)

In brief, efficient purchasing, careful storage and handling and proper usage at production stage are the essential elements of scientific material management. Irrespective of the size of the organisation, scientific material management has an innate capacity to help the unit in more than one way to achieve its objectives at the quickest possible time.

Importance of materials management in small sector:

A small unit has its own limitations due to the organisational, financial, operative and administrative constraints of the firm. In the discussions of the previous chapter we have observed that the majority of the small units are sole
proprietary or partnership firms with limited organisational abilities. Introduction of scientific materials management will enable the unit to maintain systematised stores records. These will help the entrepreneur to easily locate the weakness in the organisation and rectify it in time to avoid unnecessary loss to the unit. Over and under stocking, pilferage, etc., can also be avoided.

Financial decisions like allocation of funds can also be taken quickly based on the stores records. Thus, unnecessary locking up of capital in stores can be avoided by the industrialist. This will enable the entrepreneur to make better use of his limited resources.

The labour employed in a small unit being the barest minimum, systematic recording of materials' transactions will help the administration to simplify the procedures and enable them to take timely decisions. It will also minimise the need for additional administrative staff. Thus, a small entrepreneur can gain substantially if he introduces scientific materials management.

A manufacturing or a servicing unit will purchase different items of materials for use in its production departments. Generally these purchases are made in
accordance with the estimated needs of the unit. Any lapse on the part of the management in estimating material requirements and effecting purchases will result in either production stoppages or excess inventory. Such a situation can be avoided through proper materials management.

A manufacturing unit should always aim at the maintenance of inventory at the minimum possible level. This not only reduces huge investments in materials but also in reduction of the inventory carrying costs and help the unit with a reasonable working funds. Such an advantage can be obtained by the concern only when the material purchase, storing, and production schedules are properly managed. It means a small unit can minimise its inventory by proper materials management.

Scientific materials management will enable a unit to fix up minimum and maximum stocks of different materials based on the lead time in obtaining supplies. Besides the small unit can enjoy certain other advantages.

1. There will be no shortage of material at any time. Thus continuous production is possible.
2. Maintenance of stocks at the required level will avoid locking up of working capital due to over stocking of materials.
3. Systematic purchasing is possible through proper materials management. Thus loss due to erratic purchase is avoided.

4. Materials Management enables the unit to maintain proper accounts of materials purchased and issued. Thus any pilferage or wastage or misuse of material could be detected and taken note of.

All the advantages mentioned above will ultimately result in achieving a reduction in manufacturing cost which is the main target of any industrialist.

**Purchase Policy:**

A manufacturing unit has to select its raw material based on the product manufactured. The quantity required depends upon the volume of production. A production schedule is prepared considering the plant capacity, the anticipated demand for the product and the funds available with the industrialist. Based on the nature of the raw material and its availability and the production schedule the entrepreneur has to decide upon his purchasing policies. Thus purchasing policy is interlinked with two basic factors viz., (1) Nature and availability of raw material and (2) the production schedule.
Nature of the raw material:

Materials may be classified into various categories considering a number of factors, such as (1) Nature (2) Availability and (3) Perishability. A raw material may lose some or much of its weight during production/processing, such a material is known as weight losing raw material, Eg., Sugarcane. If a material is available only in a particular season, such a material is called seasonal raw material, Eg. Tamarind, used by some units in the manufacture of starch. Supply of certain materials is controlled by Government's policies. Such materials are known to be controlled materials. Eg., Iron and Steel, Cement, certain chemicals like match wax, etc. Perishability means deterioration due to storing over a long period of time. A material which cannot be stored for longer periods without considerable loss is called perishable material. Eg., different varieties of industrial raw material which perish and lose their quality if stored over longer periods, viz., spirit, varnish, etc.

Before formulating any production or purchase programme the industrialist must bear in mind the above factors.

2. THE PURCHASING FUNCTION:

Effective purchase is a useful tool to improve the profit position of a manufacturer. Every industrialist must be careful in effecting his purchase
transaction so as to reduce cost of purchase. Normally, increasing sales volume to earn a higher return is a difficult task as it is linked to consumer demand. But this can be achieved in a different way. Reduction in cost of purchases automatically results in increasing the rate of return.

**Buying vs. Purchasing:**

There is a difference between 'Purchasing' and 'Buying'. The American Marketing Association defines 'Buying' as 'the purchase of goods for resale, to the ultimate or household consumer, in a form not requiring further commercial processing'.

According to the above definition, purchasing means procuring material for processing and converting it into a finished product. If any finished product is procured for ultimate sale to consumer, it is called buying.

**Varieties of Material purchased by an entrepreneur:**

Raw materials, spare parts and components, consumable stores and packing material are the different varieties of materials purchased by a small industrialist. While raw materials are used in the production process to manufacture a finished product, spare parts, and components and consumable

stores are used to maintain the machinery in good working condition. Packing materials are meant for packing the finished goods ready for sale.

Objectives of Purchase:

To carry on purchasing activities effectively an entrepreneur has to decide on the following:

OBJECTIVES OF PURCHASE

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Situation to be attended</th>
<th>Decision suggested</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.</td>
<td>When to purchase?</td>
<td>At the right time.</td>
</tr>
<tr>
<td>3.</td>
<td>Where to purchase?</td>
<td>At the right place.</td>
</tr>
<tr>
<td>4.</td>
<td>How much to purchase?</td>
<td>The right quantity.</td>
</tr>
<tr>
<td>5.</td>
<td>At what price to purchase?</td>
<td>At the right price.</td>
</tr>
</tbody>
</table>

As illustrated above, the objectives of purchasing are generally summarised as procuring materials of the Right Quality, at the right time and place, in the right quantity and at the right price. These objectives are commonly known as five R's. These objectives are to be borne in mind by an entrepreneur while attending to the purchasing job. This will enable the industrialist to minimise his expenses on purchases and earn good returns.
Items to be purchased:

There may be some items which are to be produced in the firm and some which are to be purchased from outside. In such cases there is no option left to the industrialist except to act according to circumstances. A decision is required under a situation when a product available in the market can also be produced in the factory for selfuse. Such decisions come under the category of make or buy decisions. The entrepreneur has to take a right decision after evaluating the situation in each case.

Mainly this decision is to be based on

1. the availability of spare production capacity,
2. the price advantage arising out of the comparative cost of making and buying, and
3. the design or patent rights attached to the product, etc.

A sound decision will enable an industrialist to purchase only essential items and help the unit to utilise the machine capacity to the maximum extent.

Having decided on different items to be purchased, a decision should also be taken as to the quality of material to be purchased.

In the small scale sector it is observed that only 1% of the total units are manufacturing components
which form part of their finished products. These units are under the category Machinery and Machine tools group (Code No. 35). The rest of 99% are purchasing their requirements from outside. Some units of Food products (Code Nos. 20 & 21), Leather products (Code No. 29) and Transport equipment groups (Code No. 37) have facilities to manufacture some components which are now being purchased from outside. On enquiry about the possibilities of these bought components being produced by the units themselves, with a marginal increase in fixed capital, it is learnt that the industrialists have not applied their minds to this aspect. This leads us to the conclusion that small entrepreneurs of Rayalaseema are not in a position to decide what they have to purchase and what they have to produce.

**Time of purchase:**

Purchases are to be made in time. This will avoid unnecessary locking up of capital in stocks or holding up production due to stockouts. Generally materials are purchased when the stocks come to reorder level. At this stage the management has to decide upon the frequency of purchases. Based on the nature of the material, production capacity, demand for the product, availability of material and capital, a programme of purchase can be drafted by every manufacturer. This will enable the entrepreneur to know at what
intervals viz., weekly, fortnightly, monthly, quarterly, half-yearly or annually, the purchases are to be made. This programme is called purchase schedule.

The following points are to be kept in view at the time of preparing the purchase schedule.

(1) Nature of the material—seasonal— perishable—scarce—in all these cases purchase depends on availability of the material.

(2) Possibilities of change in the production process.

(3) Price fluctuations.

(4) Storage facilities and storing costs.

(5) Availability of funds for purchase.

(6) Production programme or schedule.

The position with Small Units:

The following tables show the purchasing practices of small scale units and percentage of material cost to sales in small units.
## TABLE 63

**TABLE SHOWING PERCENTAGE OF MATERIAL COST TO SALES**

<table>
<thead>
<tr>
<th>Code No.</th>
<th>Industry Group</th>
<th>Percentage of Material cost to sales(1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 &amp; 21</td>
<td>Food Products</td>
<td>63</td>
</tr>
<tr>
<td>22</td>
<td>Beverages</td>
<td>41</td>
</tr>
<tr>
<td>26</td>
<td>Hosiery and Garments</td>
<td>57</td>
</tr>
<tr>
<td>28</td>
<td>Paper products</td>
<td>58</td>
</tr>
<tr>
<td>29</td>
<td>Leather products</td>
<td>51</td>
</tr>
<tr>
<td>30</td>
<td>Rubber and Plastic</td>
<td>57</td>
</tr>
<tr>
<td>31</td>
<td>Chemicals</td>
<td>57</td>
</tr>
<tr>
<td>32</td>
<td>Mineral Products</td>
<td>51</td>
</tr>
<tr>
<td>34</td>
<td>Metal Products</td>
<td>65</td>
</tr>
<tr>
<td>35</td>
<td>Machinery &amp; Machine Tools</td>
<td>53</td>
</tr>
<tr>
<td>36</td>
<td>Electrical and Electronics</td>
<td>72</td>
</tr>
<tr>
<td>37</td>
<td>Transport Equipment</td>
<td>32</td>
</tr>
<tr>
<td></td>
<td><strong>Average (2)</strong></td>
<td><strong>54.75 or</strong></td>
</tr>
</tbody>
</table>

**Note:**

1. Percentages are calculated taking into consideration all responded units in the respective group. Hence figures in the table represent averages of the responded units in a particular group.

2. Average is arrived at taking into account all the responded units irrespective of the group to which they belong.

**Source:** Table developed from data collected.
It can be observed from the above table that expenditure on material is maximum in electrical and electronics group (Code No.36) at 72% followed by metal products (Code No.34) at 65% and food products (Code Nos.20 and 21) at 63%. It is the minimum in Transport Equipment group (Code No.37) at 32%. It is learnt that a small unit spends 54.75% of its sales produce on material only with due variations in the case of different industries. This is in accordance with the normal practice available elsewhere. Thus it can be said that even in the case of small units material is one of the major elements of cost. Now let us see what are the purchase practices in small scale units.

Industrial units may follow the following practices for effective purchasing:

(1) Preparation of and purchasing according to schedule.

(2) Selecting a definite source of supply and utilising such source to the advantage of the unit.

(3) Selecting an alternate source of supply.

---

(3) A purchase schedule is a programme indicating the time (date) at which different materials are to be purchased.
(4) Determination of quantity and frequency of purchase.

(5) Inspection of material purchased and taking them to stores.

All aspects discussed in the following pages are as applied to the Small Sector in Rayalaseema.

Table 64 shows the purchasing practices of Small units.

![Table 64: Purchasing Practices of Small Units]

<table>
<thead>
<tr>
<th>Code No.</th>
<th>Industry Group</th>
<th>According to Schedule</th>
<th>Without Schedule</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 &amp; 21</td>
<td>Food products</td>
<td>13</td>
<td>87</td>
<td>100</td>
</tr>
<tr>
<td>22</td>
<td>Beverages</td>
<td>25</td>
<td>75</td>
<td>100</td>
</tr>
<tr>
<td>26</td>
<td>Hosiery and Garments</td>
<td>-</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>28</td>
<td>Paper products</td>
<td>-</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>29</td>
<td>Leather products</td>
<td>-</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>30</td>
<td>Rubber and Plastic</td>
<td>33</td>
<td>67</td>
<td>100</td>
</tr>
<tr>
<td>31</td>
<td>Chemicals</td>
<td>39</td>
<td>61</td>
<td>100</td>
</tr>
<tr>
<td>32</td>
<td>Mineral products</td>
<td>6</td>
<td>94</td>
<td>100</td>
</tr>
<tr>
<td>34</td>
<td>Metal products</td>
<td>31</td>
<td>69</td>
<td>100</td>
</tr>
<tr>
<td>35</td>
<td>Machinery and Machine Tools</td>
<td>-</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>36</td>
<td>Electrical &amp; Electronics</td>
<td>36</td>
<td>64</td>
<td>100</td>
</tr>
<tr>
<td>37</td>
<td>Transport Equipment</td>
<td>33</td>
<td>67</td>
<td>100</td>
</tr>
</tbody>
</table>

Position among the total sample units 23 77 100

Source: Table prepared based on data collected.
It will be seen, from the above that 77% of the small units have no purchase schedule. In all, only 23% of the units have regular and periodic purchases. None of the units in the groups of Hosiery and Garments, Paper, Leather products and Machinery and Machine Tools effect their purchases according to schedule. In other groups percentage of units purchasing their raw material requirements at regular intervals range between 6% to 39%. Periodical purchasing seems to be popular amongst units belonging to chemicals, electric and electronics, Transport equipment and rubber and plastic groups. As a whole, purchasing activity as per schedules seems to be not very popular in Small Scale Sector.

2. SOURCES OF SUPPLY:

An industrial unit can procure its raw materials as under:

(1) Through own arrangements: under this method, the entrepreneur will contact his suppliers on his own and arrange for supply of his requirements.

(2) Through government allotments: Scarce or controlled materials are supplied by the government through its agencies.

(3) Through institutional arrangements: Industrialists can have contacts with sister concerns in the vertical order for the supply of materials.
(4) Entrepreneurs can procure their supplies through a combination of all or any two or more of the above alternatives.

The following table shows various sources through which all varieties of materials are procured by the small scale sector in Rayalaseema.
### TABLE 65

**Usage of Different Sources of Purchase by Small Entrepreneurs:**

<table>
<thead>
<tr>
<th>Industry Code No.</th>
<th>Source of supply</th>
<th>Total Units having Govt. supplies (Cols. 3 + 4)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Own arrangements (1)</td>
<td>Government allotments only (ii)</td>
</tr>
<tr>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
</tr>
<tr>
<td>20 &amp; 21</td>
<td>91</td>
<td>9</td>
</tr>
<tr>
<td>22</td>
<td>75</td>
<td>25</td>
</tr>
<tr>
<td>26</td>
<td>100</td>
<td>-</td>
</tr>
<tr>
<td>28</td>
<td>45</td>
<td>18</td>
</tr>
<tr>
<td>29</td>
<td>100</td>
<td>-</td>
</tr>
<tr>
<td>30</td>
<td>56</td>
<td>22</td>
</tr>
<tr>
<td>31</td>
<td>52</td>
<td>35</td>
</tr>
<tr>
<td>32</td>
<td>69</td>
<td>31</td>
</tr>
<tr>
<td>34</td>
<td>53</td>
<td>9</td>
</tr>
<tr>
<td>35</td>
<td>33</td>
<td>67</td>
</tr>
<tr>
<td>36</td>
<td>38</td>
<td>50</td>
</tr>
<tr>
<td>37</td>
<td>100</td>
<td>-</td>
</tr>
</tbody>
</table>

| Position in the sector as a whole | 64 | 18 | 18 | 100 | 36 |

**Note:**
1. Units having institutional arrangements are also included under own arrangements.
2. Figures indicate percentages to sample units in respective groups.

**Source:** Data collected.
As shown in the table, 64% of the units have their own arrangements for supply of raw materials. 18% are exclusively depending upon Government supplies while 18% are partly securing their requirements from the Government. Some units in Rubber and plastic group are importing their raw material and the rest are utilising indigenous material only. 67% of units in Machinery and Machine tools group (Code No.35) and 50% of units in Electrical and Electronics group depend upon government supplies only.

**Government as a source of supply:**

Government supplies to small units can broadly be classified as under:

(i) Raw material, components and spares - indigenous and imported.

(ii) Non-ferrous materials - indigenous and imported.

(iii) Iron and Steel - indigenous and imported and

(iv) Chemicals - indigenous and imported.

Under the import liberalisation scheme, the actual users are provided with adequate foreign exchange to meet their justifiable requirements of imported items of industrial raw materials. The "Priority" industrialists are assured of an

(4) Includes Small Scale Units.
adequate supply to the extent of their requirements by way of grant of rational licences.

The Director of Industries of the concerned State allocates indigenous non-ferrous metals. Some of the non-ferrous items are canalised through the State Trading Corporation of India (S.T.C.) Materials imported by S.T.C. are supplied to small units in accordance with the recommendations of the Director of Industries concerned. State Trading Corporation is also taking up the supply of some scarce materials like paper, cement and plastics. In respect of paper industry, the Corporation is using certain small units as conversion centres* and is paying conversion charges. In this case necessary raw material is supplied by the Corporation to the unit. The variety of products to be made out of the supplies is also given with a condition that only such products are to be manufactured out of the material so supplied. After completion of the work, the finished goods will be lifted by the Corporation on payment of the making charges.

* The State Trading Corporation hires the spare capacity of a small unit, and uses this for production of goods in the Corporation's name. These units are supplied with the required raw materials. Products produced therefrom become the property of the Corporation. Such units are called Conversion Centres.
Iron and Steel materials are canalised through the MMTC. Indigenous controlled chemicals are canalised through the Director of Industries or Small Industries Corporation.

The Government of Andhra Pradesh is supplying raw material to small units in the State through Andhra Pradesh Small Scale Industries Development Corporation (APSSIDC). The Corporation is having 12 Raw material Servicing Centres (RMSC) at different places all over the State. Two RMSC Centres, one at Tirupati (serving Chittoor and Kurnool Districts) and the second at Cuddapah (serving Cuddapah and Anantapur Districts) are working in Rayalaseema.

Following are some of the items supplied by the Government to small units in this region.

1. Cement
2. Match wax
3. Aluminium ingots and wire
4. Furnace oil
5. Paper
6. Paraffin wax
7. Iron and Steel
8. Coke and Coal
9. Copper
10. Denatured spirit, etc.

There is a general complaint that the Government is not meeting all the commitments in full in respect of raw material supply to the small scale sector.

* as on 1978-79.
Majority of small units are getting raw materials from Government agencies, only partly and hence not in a position to work to full capacity.

The following tables show the volume of raw material requirements met by the Government.

**TABLE 66**

**QUANTITY OF MATERIALS SUPPLIED BY THE GOVERNMENT SOURCES TO SMALL UNITS**

<table>
<thead>
<tr>
<th>Industry Code No.</th>
<th>Major items of supply</th>
<th>Quantity supplied as percentage to quantity allotted</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 &amp; 21</td>
<td>Sugar, Mida</td>
<td>20</td>
</tr>
<tr>
<td>22</td>
<td>Denatured Spirit</td>
<td>100</td>
</tr>
<tr>
<td>28</td>
<td>Paper</td>
<td>50</td>
</tr>
<tr>
<td>30</td>
<td>Nylon and Rayon</td>
<td>100</td>
</tr>
<tr>
<td>31</td>
<td>Paraffin wax, Match wax</td>
<td>15</td>
</tr>
<tr>
<td>32</td>
<td>Coal, Cement</td>
<td>35</td>
</tr>
<tr>
<td>34</td>
<td>Steel, Copper, Aluminium</td>
<td>30</td>
</tr>
<tr>
<td>35</td>
<td>Coke</td>
<td>20</td>
</tr>
<tr>
<td>36</td>
<td>Aluminium Wires, Steel Wires</td>
<td>50</td>
</tr>
</tbody>
</table>

Source: Field Study notes.
GOVERNAMENT MATERIAL SUPPLIES TO SMALL SECTOR

PERCENTAGE TO ALLOCATIONS

AVERAGE SUPPLIES

INDUSTRY CODE NUMBER
## TABLE 67

**TABLE SHOWING THE POSITION OF GOVERNMENT SUPPLIES TO SMALL SECTOR.**

(In percentage to total requirements)

<table>
<thead>
<tr>
<th>S.No. Code No.</th>
<th>Major items of supply</th>
<th>Quantity Requirements</th>
<th>Shortage between total requirements and</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Total requirements</td>
<td>Government allotment(to total requirements)</td>
<td>Actual Government supply(to total requirement)</td>
</tr>
<tr>
<td>1</td>
<td></td>
<td>100</td>
<td>33</td>
<td>6.60 (20.00)</td>
</tr>
<tr>
<td>2</td>
<td>Denatured spirit</td>
<td>100</td>
<td>100*</td>
<td>100.00 (100.00)</td>
</tr>
<tr>
<td>3</td>
<td>Paper</td>
<td>100</td>
<td>18</td>
<td>9.00 (50.00)</td>
</tr>
<tr>
<td>4</td>
<td>Nylon and Rayon</td>
<td>100</td>
<td>100*</td>
<td>100.00 (100.00)</td>
</tr>
<tr>
<td>5</td>
<td>Paraffin wax and match wax</td>
<td>100</td>
<td>69</td>
<td>10.35 (15.00)</td>
</tr>
<tr>
<td>6</td>
<td>Coal, cement</td>
<td>100</td>
<td>100*</td>
<td>35.00 (35.00)</td>
</tr>
<tr>
<td>7</td>
<td>Steel, copper, aluminium</td>
<td>100</td>
<td>28</td>
<td>8.40 (30.00)</td>
</tr>
<tr>
<td>8</td>
<td>Coke</td>
<td>100</td>
<td>100*</td>
<td>20.00 (20.00)</td>
</tr>
<tr>
<td>9</td>
<td>Aluminium wires, steel wires</td>
<td>100</td>
<td>50</td>
<td>25.00 (50.00)</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td></td>
<td><strong>100</strong></td>
<td><strong>66.44</strong></td>
<td><strong>34.32</strong></td>
</tr>
</tbody>
</table>

**Note:**

(1) Volume of production is also determined by Government.

(2) Average is arrived at taking the responses of all units in the sector as a whole.

(3) Figures in brackets denote Col.6 as percentage to Col.5. This shows the extent of the Government's fulfilment of its commitments.

**Source:** Data collected.
Analysis:

It will be observed from the tables that Government agreed to supply the raw material requirements of units in the following industry groups in full.

(1) Beverages (Code No.22)
(2) Rubber and Plastics (Code No.30)
(3) Mineral Products (Code No.32) and
(4) Machinery and Machine Tools (Code No.35)

But the Government is meeting its commitments in full in respect of only two industry groups viz., Beverages (Code No.22) and Rubber and Plastics (Code No.30). In respect of other industries, supply ranges between 15% to 50% of total allotments. Thus Government supplies are only 34% whereas the commitment is 66% on an average. This situation is resulting in a shortage of 33% in allotment and 66% in supplies. In other words, Government is meeting only about 34% of the requirements of the small sector. Even this is only due to cent per cent supplies to Beverages and Rubber and Plastic units. Thus, it is said that "the Government supplies to majority of small units are enough only to meet the requirements of one shift of eight hours" (5)

It is also observed that 40% of units getting Government supplies are working only one shift of eight hours. Remaining 60% units are making alternative arrangements to get their raw material requirements. Naturally the alternative arrangements are in the form of open market purchases.

Defects in working of this system:

Many entrepreneurs are not satisfied with the working of this system. They complain against the working of the scheme on more than one premise. A few common complaints are listed below:

1. Insufficient supply.
2. Delivery schedule not adhered to.
3. Procedures and formalities to be complied with are tough and lengthy. Some of the entrepreneurs who are eligible to apply for Government supplies have not done so fearing difficulty in the formalities to be complied with.
4. Goods supplied are not in accordance with the quality allotted or required.
5. Non-availability of credit facilities:
   This is a common complaint of majority of small entrepreneurs belonging to paper

*Based on field study notes.
industry. It is learnt that the STC supplies paper to them on a condition that the stocks can be lifted only on payment of the full value of material, though the industrialist is paid only conversion charges under a specific scheme.

Due to the above, small industrialists feel that it is easy for them to procure their requirements in the open market even though it may be a little expensive.

The Government agencies also have a peculiar practice of deleting the names of those industrialists from the list of allottees who fail to lift their allotments, consecutively for three times. It was observed that some of the industrialists are lifting their allotments from the Government even if the material is not useful, only to maintain their names on the rolls. Such persons are disposing off their quotas, thus purchased, in black market to get back their investment. Thus it can be said that by supplying material not suitable and forcing the allottees to purchase from outside, the Government agencies are encouraging black market indirectly.

In short, it is observed that as a supplier of raw materials the Government is not popular.
Procurement of raw materials from the open market:

An entrepreneur can arrange for the supply of his requirements from the open market. He can secure his requirements in the following ways:

(a) by placing direct orders with suppliers,
(b) through agents of suppliers
(c) through mail orders,
(d) through reciprocal purchasing,
(e) through negotiation and
(f) through a combination of some or all of the above alternatives.

While selecting the mode of obtaining raw materials, the industrialist should make sure that the supplies will be timely and regular and as per specifications in respect of quality, in required quantities, at reasonable prices. The following table indicates the extent of utilisation of the different methods of supply.
TABLE 68

EXTENT OF UTILISATION OF DIFFERENT MODES OF PURCHASE BY SMALL UNITS

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Mode of Purchase</th>
<th>Utilisation Rate %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Direct orders with suppliers</td>
<td>55</td>
</tr>
<tr>
<td>2.</td>
<td>Through sales agents</td>
<td>7</td>
</tr>
<tr>
<td>3.</td>
<td>Through mail orders</td>
<td>6</td>
</tr>
<tr>
<td>4.</td>
<td>Through more than one of the above modes</td>
<td>29</td>
</tr>
<tr>
<td>5.</td>
<td>Other methods</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: Field Study notes.

An analysis of the above table reveals that 55% of small entrepreneurs secure their raw material by placing direct orders with suppliers. Sales agents and mail orders are used only by 7% and 6% of the industrialists respectively. As much as 29% of units are using more than one method of purchase. Only 3% units are securing raw material by other means. In majority of these cases the industrialist is acting as a job order manufacturer and hence the material is supplied by customer himself. It is also observed that a negligible number of entrepreneurs have their own material deposits. This is the case with slab polishing units. The entrepreneurs have own quarries for supply of their material requirements.
4. QUANTUM OF PURCHASE:

This is an important question which an industrialist has to face before placing an order for supply. In a production unit generally the purchase quantity is determined by the purchase personnel in coordination with the production department. While determining the volume of material to be purchased and stocked, to ensure continuous production, the purchaser should consider the following points:

1. Nature of the product
2. Its availability
3. Time required for placing orders
4. Lead time
5. Time taken for inspection of receipts
6. Storing facilities available
7. Government restrictions in respect of stocking
8. Economic order Quantity (E.O.Q.)
9. Plant capacity and
10. Demand for the finished product.

Based on the above and availability of financial resources, the quantity of purchases are to be determined.

Inventory Turn-over:

Inventory may be out of balance either on account of over stocking or shortage. If the stocks are too
large than what is needed the cost of carrying the inventory will be higher than what it should be. Inventory carrying costs include such things as interest on inventory investment, warehousing expenses, depreciation, cost of safe keeping, material losses, etc. Generally these costs come to about 25% of inventory costs.

Therefore, proper inventory control must aim at reducing the average investment in inventory by increasing the turn over of inventory. With each increase in the number of times the material turns over in a year there will be a proportionate decrease in the annual carrying costs. An important point to be remembered at this stage is that too small inventories are bound to increase stock out costs which may ultimately increase the operating costs.

In brief, as inventory turn over increases, inventory carrying costs decrease and stock out costs increase. Thus the optimum inventory turn over occurs when the increasing costs are at the minimum. Taking these and a few allied factors into account material stock levels are to be fixed with a view to have an effective inventory control.

Inventory stock levels:

Different stock levels of materials in vogue in industrial circles are the following:
1. **Reorder level**: This is a point at which order for supply of material must be placed. In other words, the stock level at which a fresh order is to be placed for replenishment of stocks is called reorder level.

The time interval between the date of placing an order and the date of receipt of the ordered quantity into the stores is called LEADTIME.

The supplier may take his own time in executing the order placed. Therefore, the order level is so fixed, above the minimum level, so that, even if the stock is consumed during the lead time it does not fall below the minimum limit. A formula which is widely adopted for arriving at the ordering level is as under:

Ordering level = Minimum Stock + (Average rate of consumption × Lead time)

2. **Minimum level**: This is the amount of stock reserved to meet any unexpected delay in suppliers. This is also known as Minimum stock level, safety limit or buffer stock. This can be expressed by a formula shown below:

Minimum level = Ordering level — (Average rate of consumption × lead time)
If the stocks fall below this level it is said to be nearing the danger point or danger level. When stock reaches this level urgent action is needed for replenishment.

3. **Maximum level**: Maximum level is the quantity above which the stock of any item should not be allowed to exceed. This level is fixed very carefully as any error is bound to result in unnecessary investment and a high degree of material losses. Before deciding this level many factors mentioned above are to be considered.

\[
\text{Maximum stock level can be expressed as below:} \\
\text{Maximum level} = \text{Reorder level} - \text{lead time requirements} \times \text{Economic order quantity (E.O.Q)}
\]

4. **Economic Order Quantity (E.O.Q.)**: Economic order quantity is the optimum or the most favourable quantity which should be ordered for purchase each time when purchases are to be made.

E.O.Q. is one where the 'Cost of carrying' is equal to or almost equal to the 'cost of not carrying'. Cost of carrying includes interest on investment, obsolescence, losses and space costs. Overstocking may raise these costs. Cost of not carrying includes expensive expediting, loss of sales and loss of consumer goodwill. The accepted formula for E.O.Q. is as under:
E.O.Q. = \[ \sqrt{\frac{2 \times U \times O}{C}} \]

Where
- \( U \) = Annual usage in units
- \( O \) = Order placing and receiving costs
- \( C \) = Cost of carrying one unit in inventory for one year.

The above discussion tells us that material should be stocked at reasonable levels and the quantity of material to be purchased each time should also be economical. If a material is purchased in large quantities than what is required, the carrying costs will be heavy resulting in heavy losses to the production unit. On the other hand, if the orders are placed frequently in smaller lots, the cost of placing orders and the purchase costs will be on the increase. This may lead to heavy cost of non-carrying the material at optimum level.

**E.O.Q. in practice:**

The following table shows the nature of order quantity in respect of small scale units. The table also explains as to whether the small units are placing orders for fixed quantities each time.
TABLE 69
ORDER SIZE PRACTICES IN SMALL UNITS
(Percentage to sample units)

<table>
<thead>
<tr>
<th>Code No.</th>
<th>Purchase Order Quantity</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fixed</td>
<td>Varying</td>
</tr>
<tr>
<td>20 &amp; 21</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>22</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>26</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>28</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>29</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>30</td>
<td>40</td>
<td>60</td>
</tr>
<tr>
<td>31</td>
<td>32</td>
<td>68</td>
</tr>
<tr>
<td>32</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>34</td>
<td>18</td>
<td>82</td>
</tr>
<tr>
<td>35</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>36</td>
<td>13</td>
<td>87</td>
</tr>
<tr>
<td>37</td>
<td>20</td>
<td>80</td>
</tr>
</tbody>
</table>

Average 12 88 100

Source: Data collected.

It can be noticed that 88% of small units do not effect their purchases in fixed quantities. Only 12% of units are following the practice of purchasing in fixed quantities. This practice seems to be popular in Rubber and Plastic units (Code No.30), Chemicals
(Code No. 31), Transport equipment (Code No. 37), and Metal products (Code No. 34). Units in Electrical and Electronics group (Code No. 36) are also following this practice to a limited extent.

On the whole, there appears to be no practice of ordering to a fixed (economical) quantity on any order so that the unit can gain the benefits of E.O.Q.

The following are some of the reasons for non-adoption of the principle of E.O.Q. in majority of small units:

1. Purchases being handled by a person who is not conversent with the principles of purchasing.
2. Non-availability of storage facilities.
3. Lack of working capital.

Order quantity determinants in small units:

As observed, the following are some of the order quantity determinants among small scale units.

1. The point of immediate requirements:
   Under this category units start purchasing their requirements only when the stocks reach danger level. Thus these units are practising "hand to mouth purchasing".
2. Experience of the industrialist according to which purchases are effected and stocks are maintained.
(3) The production schedule where it is prepared and followed.

(4) Technical estimates where qualified technicians are employed.

The following table shows the extent of usage of the above determinants among the sample units.
**TABLE 70**

**EXTENT OF USAGE OF ORDER QUANTITY DETERMINANTS IN SMALL SCALE UNITS**

<table>
<thead>
<tr>
<th>Code No. of Industry group</th>
<th>Order quantity determinants in small scale units</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Immediate requirements</td>
<td>Previous experience</td>
</tr>
<tr>
<td>20 &amp; 21</td>
<td>76</td>
<td>24</td>
</tr>
<tr>
<td>22</td>
<td>25</td>
<td>-</td>
</tr>
<tr>
<td>26</td>
<td>100</td>
<td>-</td>
</tr>
<tr>
<td>28</td>
<td>100</td>
<td>-</td>
</tr>
<tr>
<td>29</td>
<td>100</td>
<td>-</td>
</tr>
<tr>
<td>30</td>
<td>60</td>
<td>10</td>
</tr>
<tr>
<td>31</td>
<td>59</td>
<td>23</td>
</tr>
<tr>
<td>32</td>
<td>56</td>
<td>44</td>
</tr>
<tr>
<td>34</td>
<td>79</td>
<td>21</td>
</tr>
<tr>
<td>35</td>
<td>67</td>
<td>33</td>
</tr>
<tr>
<td>36</td>
<td>87</td>
<td>-</td>
</tr>
<tr>
<td>37</td>
<td>60</td>
<td>20</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td>74</td>
<td>18</td>
</tr>
</tbody>
</table>

**Source:** Table built out of date collected

**Note:** Figures indicate percentages to the sample units in respective groups.
USAGE OF ORDER QUANTITY DETERMINANTS IN SMALL SECTOR

- Immediate Requirements: 74%
- Previous Experience: 18%
- Production Schedule: 7%
- Estimates: 1%
An analysis of the table reveals that 74% of the units are purchasing their requirements according to immediate requirements.

Only in two industry groups viz., Transport equipment and Electronics (Code No. 37 and 36 respectively) some units have technical personnel to determine the purchase quantities and these units are maintaining stocks on scientific lines.

Production schedule is taken as a purchase determinant in the Beverages group (Code No. 22). 75% units purchase according to production schedules in this group. In these units the production schedule is based on governmental directions from time to time. Hence, there is no uniformity in production volume. These units get 100% supplies from the Government agencies.

30% of units in Rubber and Plastics (Code No. 30) and 18% of units in Chemicals (Code No. 31) also purchase according to the production schedules. These units produce a variety of goods. The volume of production in each category is predetermined depending upon various factors like anticipated demand, plant capacity and availability of funds, etc.

On an average in 74% of small units the quantity per order is determined by immediate requirements.
In 18% cases order quantity is determined by previous experience of the proprietor. These decisions are based on considerations like nature of the raw material and availability of finance etc. The E.O.Q. technique as a tool is not at all considered.

Only in 8% of units production schedule and estimates of technical personnel is adopted as bases while determining purchase order quantity.

Thus it can be seen that majority of small units have no proper planning and policy on purchases. They are not, therefore, able to practise effective and profitable purchasing.

During the course of our study, it was also noticed that in 77% of the units, the proprietor or one of the partners would be in charge of purchases. Many of them are not aware of the various techniques of purchasing, as they are inexperienced in the line. Hence they cannot contribute substantially for the economic purchasing.

An example:

For instance, the researcher had occasion to see a heap of raw material lying idle in a small unit at Proddatur. The unit produces leather cotton jinning washers of different sizes. The raw material
used is chrome leather chips of different sizes and thicknesses. The material is obtained in lorry loads from Madras. The unit is a partnership firm.

On one occasion, one of the partners went to Madras to get the raw material supplies. He purchased two lorry loads (two weeks requirements) of leather chips. When the goods arrived at the factory premises, the production personnel discarded the material as not fit for use. The entire investment in this case has become a waste and irrecoverable. This stock is stored in the open yard which is occupying a major portion of the available storage space. This would be the outcome of inexperienced persons being deputed to handle purchase transactions. Such happenings appear to be very common in many small units of this region.

5. **SELECTION OF SUPPLIERS:**

Selection of suppliers will depend upon various factors such as:

(a) need for selection of only one or more than one supplier on the basis of the requirements.

(b) Terms and conditions of supply. This may differ from one to another. Some may insist upon inspection of goods at their business premises.

---

Others may not be in a position to adhere to their delivery schedules which may affect the production plans of the purchasing units.

(c) Credit facilities offered by suppliers.

The basic approach in selecting suppliers shall be to procure materials at the lowest overall cost without sacrificing the quality. Besides one should ensure timely supplies as well. It must not be forgotten that non-availability of material at the appropriate time will affect the production schedule of the unit. This may result in heavy losses to the entrepreneur. So every unit must have at least two suppliers, on the rolls, to ensure regular flow of material into the production channel.

Selection of more than one supplier will benefit the entrepreneur in more than one way. An important advantage is that this policy enables the industrialist to know the details of various materials available in the line of his production activity. It protects the small unit, in case any one supplier going out of business, changing his line of activity or changing his terms and conditions of supply.

On the other hand, if an industrialist chooses to have only one supplier the advantages are the following:
(1) By use of the same type or brand of material continuously, the production gets standardised.

(2) As a good customer of one resource the entrepreneur may receive special favours or discounts.

(3) The supplier may tender useful advice to the purchaser on merchandising and market fluctuations.

(4) The supplier may even offer special concessions during times of difficulty.

There are also disadvantages on either side. The entrepreneur may have to purchase more and diversified goods from the many suppliers he is keeping contact. This may be necessary to maintain the business relationship. Such a thing may result in the maintenance of stocks at higher levels. Thus the working capital requirements may go up.

If there is a single supplier, the entrepreneur may not be in a position to enjoy the special offers if any available in the market on purchase of his requirements. During periods of scarcity, some suppliers may use their available stocks to get new customers and thus inconvenience the established and old customers.

Thus it may be concluded that where there is a monopoly of supply or where the nearest supplier
is traditionally the least expensive source
only one supplier may be preferred. Others should
decide whether to concentrate their buying with one
or a few suppliers.

The following table shows the number of small units
having more than one supplier.

<table>
<thead>
<tr>
<th>Industry Code No.</th>
<th>SSI Units having Alternate supplier</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Only one supplier</td>
</tr>
<tr>
<td>20 &amp; 21</td>
<td>35</td>
</tr>
<tr>
<td>22</td>
<td>33</td>
</tr>
<tr>
<td>26</td>
<td>-</td>
</tr>
<tr>
<td>28</td>
<td>56</td>
</tr>
<tr>
<td>29</td>
<td>40</td>
</tr>
<tr>
<td>30</td>
<td>100</td>
</tr>
<tr>
<td>31</td>
<td>60</td>
</tr>
<tr>
<td>32</td>
<td>58</td>
</tr>
<tr>
<td>34</td>
<td>67</td>
</tr>
<tr>
<td>35</td>
<td>100</td>
</tr>
<tr>
<td>36</td>
<td>50</td>
</tr>
<tr>
<td>37</td>
<td>100</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>58</strong></td>
</tr>
</tbody>
</table>

Source: Field study notes.
The above table tells us that all units belonging to Rubber and Plastics (Code No. 30), Machinery and Machine tools (Code No. 35) and Transport equipments, (Code No. 37) have alternate suppliers to meet their requirements.

Surprisingly all the units in hosiery and garments group (Code No. 26) are depending upon a single supplier only. Such a situation can also be observed in a big way in Beverages (Code No. 22) with 67% and Food products (Code Nos. 20 and 21) with 65%. As a whole, 58% of the units have more than one supplier and the rest 42% have only one supplier.

6. RECEIVING AND INSPECTION:

Each lot of material purchased should be transported safely to the production point. It should be thoroughly inspected, after receiving, to make sure that the consignment tallies with the order placed and all the contents are in usable condition. This will enable the purchaser to trace the defective material received. These items are to be separated so as to see that they do not enter the production process and they should be returned to suppliers. Such an act will prevent production hold-ups due to the usage of defective material and eliminates losses arising thereon.

Inspection involves checking the goods received as to their quality, quantity, specifications, etc.
The inspection may also be done at the suppliers' premises itself. If the inspection is to be conducted at the supplier's premises, qualified persons should be deputed to inspect the materials before despatch.

It is observed that the majority of the units do not inspect materials purchased. The following table shows the number of units inspecting the materials before they are used for production.

**TABLE 72**

MATERIAL INSPECTION PRACTICES IN SMALL UNITS

(Percentage to total sample units)

<table>
<thead>
<tr>
<th>Code No.</th>
<th>Material Inspection</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Practised</td>
<td>Not practised</td>
</tr>
<tr>
<td>20 &amp; 21</td>
<td>30</td>
<td>70</td>
</tr>
<tr>
<td>22</td>
<td>67</td>
<td>33</td>
</tr>
<tr>
<td>26</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>28</td>
<td>19</td>
<td>81</td>
</tr>
<tr>
<td>29</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>30</td>
<td>25</td>
<td>75</td>
</tr>
<tr>
<td>31</td>
<td>10</td>
<td>90</td>
</tr>
<tr>
<td>32</td>
<td>17</td>
<td>83</td>
</tr>
<tr>
<td>34</td>
<td>21</td>
<td>79</td>
</tr>
<tr>
<td>35</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>36</td>
<td>38</td>
<td>62</td>
</tr>
<tr>
<td>37</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>Average</td>
<td>19</td>
<td>81</td>
</tr>
</tbody>
</table>

Source: Data collected.
An analytical study of the above table will reveal the following information:

(1) No unit in the groups of hosiery and garments (Code No.26), Leather products (Code No.29), Machinery and Machine Tools (Code No.35) and Transport Equipment (Code No.37) inspect the purchase.

(2) The percentage of units practising inspection range between 10% to 67%. In total only 19% of the units are having the practice of inspecting purchases immediately. The rest of 81% units use the material as is received. This may be one of the reasons for the poor quality of products brought out by many small units*.

7. STORES ROUTINE OR STORE KEEPING:

Functions: Material purchased, after inspection will be sent to stores for safe keeping. This is the starting point of this routine. Following are the major functions of stores routine.

(a) Preservation of goods purchased in good condition.

(b) Issue of material to the production department when required.

(c) Maintaining stock records, recording issue and receipt of material.

(d) Keeping watch on minimum and maximum stock levels.

*As per complaints received from many users.
(e) Initiating purchase at the right time when the stocks reach reorder level.

Generally, in a production unit, at least one person shall be kept in charge of stores maintenance. He will be called the store-keeper or stores clerk and will be responsible for all the functions of a store.

**Importance:** Store is a must for every industrial unit whether small or big. This facilitates safe keeping of materials away from the workshop or machine room. Thus there will be ample space and scope for works personnel to carry on the production activity. Stores should be located in a convenient place. It has to be kept clean and tidy at all times. Proper shelves, racks, bins, etc., are to be provided in the stores to keep different materials so that they are easily located and carefully handled. Materials which cannot be accommodated in the store should be so positioned that they do not come in the way of other workers.

**Codification of Materials:**

When a larger number of items are to be maintained, it is better to allot code numbers to them for proper identification and maintenance of secrecy about the type of material.

A simple method to codify is to categorise the materials as:
(1) primary materials or raw materials;
(2) purchased items;
(3) components or bought items used in the production process and
(4) tools and equipment and so on.

Assigning code numbers will reduce the paper work and facilitates proper control over material.

Stores Records:

Following are some of the important records to be maintained in a store.

(1) Bincard;
(2) Material Requisition or issue slip;
(3) Material Transfer note;
(4) Stores Ledger;
(5) Goods received note.

**Bincard:** Material received into the store will be stocked in the bin or shelf allotted to it. Each bin will have a card attached to it. This card is called as the 'BINCARD'. It will contain all details relating to receipt, issue and balance of stock of the material kept in the bin. Following is the proforma of a bincard.
BINCARD (Proforma)

XYZ Company

<table>
<thead>
<tr>
<th>BIN No:</th>
<th>Max. Level:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Material:</td>
<td>Min. Level:</td>
</tr>
<tr>
<td>Location:</td>
<td>Order Level:</td>
</tr>
<tr>
<td>Stores ledger Folio:</td>
<td>Order Quantity:</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Date</th>
<th>RECEIPTS</th>
<th>ISSUES</th>
<th>BALANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Receipt No.</td>
<td>Qty.</td>
<td>Date</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

A bin card provides a running record of receipts, issues and stock in a single form. Each receipt or issue of material will be entered in the bin card and a new balance is struck after every issue or receipt. This enables the stock keeper to know the stock of materials and guide the purchaser in initiating purchase. Misuse of material is also avoided as all issues or receipts are to be initialled by the storekeeper.

Material Requisition or issue slip:

This is a slip prepared by the production department. It will contain the description of material required, quantity, description, Code number and the job for which the material is to be used. On receipt
of this slip the store keeper will make a note of the slip in his records and issue the material requested for. This step will be useful to cross check entries in the bin card and also for calculating the cost of material used for a job.

Any excess material left in the production process will be returned to the stores with a Material Return Note. This material can even be transferred to another job with a Material Transfer Note. Copies of these records will be sent to the stores for necessary record.

Stores ledger:

Generally this ledger is kept in the cost department (if any) of a unit or in the financial department. This will be like a diary of the purchase and issue transactions taken place in the stores. The ledger will usually be in a loose leaf form or in a card type. It will contain a separate sheet for each material item purchased. A specimen stores ledger sheet is given below.
These documents and records help a manufacturing unit to follow effectively perpetual inventory system.

Perpetual inventory system:

'The perpetual inventory system is a method of recording stores balance after each receipt and issue to facilitate regular checking and to obviate closing down of work for stock taking.'

A perpetual inventory system consists of maintaining each type of material on accounting records showing the quantity and value of material
The advantages of perpetual inventory are as follows:

(a) Investment in material and supplies may be kept at a minimum.

(b) Management may be informed daily of the stock levels of various items and thus eliminate delays and shut downs in plant activities.

(c) A systematic internal check is enforced at all times.

(d) Frequent physical stock taking can be dispensed with.

(e) Periodical profit and loss account can be prepared as the value of stock in hand is readily available.

(f) Production can easily be computed as all material records are available.

STORE KEEPING IN PRACTICE:

Let us know the store keeping practices in small units of Rayalaseema.

One of the essential requirements for better store keeping is the space available for storing with facilities for material handling, material issues, with all safety devises and watch and ward, etc. Otherwise the store keeping would not be effective and result in much of material loss.
The following table shows the position of storing place in small scale units.

**TABLE 73**

**AVAILABILITY OF STORES FACILITY WITH SSI UNITS**

(Percentage to sample units)

<table>
<thead>
<tr>
<th>Industry Code No.</th>
<th>Storage Facilities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Available</td>
<td>Not available</td>
</tr>
<tr>
<td>20 &amp; 21</td>
<td>60</td>
<td>40</td>
</tr>
<tr>
<td>22</td>
<td>67</td>
<td>33</td>
</tr>
<tr>
<td>26</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>28</td>
<td>81</td>
<td>19</td>
</tr>
<tr>
<td>29</td>
<td>20</td>
<td>80</td>
</tr>
<tr>
<td>30</td>
<td>100</td>
<td>-</td>
</tr>
<tr>
<td>31</td>
<td>75</td>
<td>25</td>
</tr>
<tr>
<td>32</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>34</td>
<td>63</td>
<td>37</td>
</tr>
<tr>
<td>35</td>
<td>33</td>
<td>67</td>
</tr>
<tr>
<td>36</td>
<td>88</td>
<td>12</td>
</tr>
<tr>
<td>37</td>
<td>33</td>
<td>67</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>62</strong></td>
<td><strong>38</strong></td>
</tr>
</tbody>
</table>

Source: Field data.

A study of the above table will reveal that no unit in Hosiery and garments group (Code No.30) is having space to stock materials. As a contrast all the units in Beverages group (Code No.26) have storage
facility. The practice of maintaining stores seems to be very prominent in units belonging to the groups of paper products (Code No. 28), Electrical and Electronics (Code No. 36) and Chemicals (Code No. 31). On the whole, we observe that 62% of the units have facility to store materials, whereas the balance of 38% units have no separate storage facility.

It was noticed during the field study that though 62% of small units have facilities to store materials, majority of them are not operating separate stores. Many units identify factory sheds unused as their stores. Some units have stocked materials in open yards exposing them to rain and sun.

Thus it may be said that many units do not seem to understand the importance of proper stores maintenance. One of the reasons for this situation may be the practice of hand to mouth purchasing with many units.

By and large, the same situation is observed as regards the maintenance of proper stores records. The following table shows that position.
## TABLE 74

**MAINTENANCE OF STORES RECORDS IN SMALL SCALE SECTOR**  
(Percentage to sample units)

<table>
<thead>
<tr>
<th>Industry Type</th>
<th>Types of Records Maintained</th>
<th>Code No.</th>
<th>No. Record Stock Register only</th>
<th>Stores Ledger, Bin card, Material Requisition slip, etc.</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>20 &amp; 21</td>
<td>52</td>
<td>48</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td></td>
<td>22</td>
<td>-</td>
<td>75</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td></td>
<td>26</td>
<td>100</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td></td>
<td>28</td>
<td>50</td>
<td>35</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td></td>
<td>29</td>
<td>50</td>
<td>50</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td></td>
<td>30</td>
<td>40</td>
<td>40</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td></td>
<td>31</td>
<td>40</td>
<td>43</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td></td>
<td>32</td>
<td>54</td>
<td>38</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td></td>
<td>34</td>
<td>32</td>
<td>48</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td></td>
<td>35</td>
<td>25</td>
<td>50</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td></td>
<td>36</td>
<td>-</td>
<td>38</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td></td>
<td>37</td>
<td>100</td>
<td>-</td>
<td>100</td>
</tr>
</tbody>
</table>

**Average** | 44 | 41 | 15 | 100 |

*Source: Data collected.*

The above table reveals that maintenance of stores records is not being attended to properly. According to the survey **44%** of the units have no records for material and **41%** units have only stock.
registers. Only material receipts are shown in this register in an unsatisfactory way. Besides, there are no records for material utilisation. On enquiry it is learnt that all the purchases for a period are totalled and is treated as material utilised or consumed. Many entrepreneurs do not seem to be worried about the stocks left behind.

Only 15% units have maintained stores ledgers in a proper form. Some of them are also using Material Requisition slips, Returns slips, Bin cards, etc. The Electrical and Electronics Units (Code No. 36) are adopting this method very meticulously. This only shows that scientific and system based store keeping does not appear to be popular among small units. This attitude of many small entrepreneurs only reveals that they are not conscious of material wastage and loss and the resultant escalation in cost.

The role of store keeper and stores clerk:

Store keeper or clerk is one who maintains the stores and stores records. Following are some of the merits of employing a stores clerk.

1. He will look after careful handling of material and can avoid wastage due to improper handling.
2. He can take follow up action in respect of purchase orders and ensure prompt delivery of materials.
3. He will be in charge of receipts and inspection of materials.
4. He, being a sole in-charge of stores, can maintain proper stores records.
5. Perpetual inventory system can easily be introduced in the unit.
6. As the proprietor will be looking after all the aspects of the concern, the store keeper can be of much help to the proprietor if he is also put in charge of purchase.
7. If basic training is provided, a store keeper can also act as a cost accountant of the unit, if need be.

Against this background, our study reveals that only 17% of small units have engaged full time stores clerks. 13% units have part time accounts who also look to storage work. Only financial accounts and stock registers are prepared in these units. In 70% of cases, the proprietors or partners are looking after stores and stores accounting.

8. Pricing Issues:

It is the responsibility of the manufacturer to see that the selling price of his product recovers all his production expenses including material cost. Besides he shall also get a reasonable margin as profit. For this purpose, the producer has
to price the material scientifically issued to production.

If the purchase price of the materials is constant, there will be no difficulty in fixing the issue price of materials sent to production. But it will not be so in practice. Purchase prices will always be fluctuating, so also issue prices.

As indicated earlier, it is the method of pricing material issues to production that influences the cost of the product and the value of closing balances. Hence a careful selection is to be made of the method of pricing the issues. There are four basic factors which an issue price should satisfy. They are:

1. The price should recover the purchase cost of materials.
2. The price must reflect the current market price.
3. The price should not cause any significant variation in costs from time to time.
4. The price should not necessitate heavy adjustments in values at the year end stock valuation.

Methods of pricing issues:

There are many methods of pricing the issues. A method selection depends upon factors like the nature of the material, the type of finished product, the economic and industrial climate, etc. A few important
Methods having a direct bearing on the production cost are discussed briefly.

1. **First in First out Methods (FIFO):**

   Under this method, it is assumed that materials which are received first are issued first. Issues are charged to production accordingly. This method is most suitable where the material is slow moving and have comparatively high unit cost.

   This method recovers cost and avoids stock adjustments at the year end. But the price may not reflect market price.

2. **Last in First out (LIFO):**

   This method assumes that the material received last is utilized first. That means the price of the material came into stock last is charged to production.

   This method, no doubt, reflects the market price and recovers the cost. But it is not free from fluctuations. The method also requires heavy stock adjustments.

3. **Highest in First Out (HIPO):**

   Under this method the highest priced bulk of material is treated as issued first. This helps to
keep the value of inventory at a low level. Though this method recovers the cost it fails to satisfy other requirements of a good pricing method.

4. **Average Price:**

The average price may be the arithmetical average or the weighted average rates of all purchases. Under this method the issue prices are not related to the specific cost price. This method recovers cost of material. Prices charged being averages, will be very near to the market prices. This also avoids adjustments in stock values at the year end. Thus this method fulfills all the requirements of a good pricing policy.

5. **Standard price or predetermined price:**

The standard price is neither the market price nor the purchase price. It is the price fixed on considering all the factors affecting material prices. The method may not reflect market prices if the standards are not properly set. But it avoids fluctuations and is free from heavy stock adjustments. It eliminates heavy clerical labour.

**Position in Small Scale Sector:**

In practice, no small entrepreneur is following any of these methods for pricing the issues. The sale price of the finished product, therefore, is fixed
arbitrarily based on previous experience. It is only at the end of the year financial results are calculated. A few reasons for this situation are:

1. Many entrepreneurs are not aware of these techniques.
2. Even those who are aware of these systems are of the opinion that these will not suit their requirements.
3. Some are also of the opinion that adoption of these methods may increase their administrative expenses.

In reality all units whether small or big can implement these systems with minimum expenditure and derive maximum benefits. Scientific pricing of materials issued to production will enable an entrepreneur to maintain production details comprehensively. If more products are manufactured, pricing of all materials will enable the proprietor to ascertain which product is earning profit and which is incurring a loss.

To sum up, the discussion in the previous pages has brought out the following significant factors:

1. Majority of small entrepreneurs are using indigenous materials in their production process.
2. Small units spend 55% of their sales amount on materials.
3. 77% small units are not following any schedule for purchasing their requirements.
4. 64% small entrepreneurs have their own arrangements for material supply. 36% units are securing supplies through Government or its agencies. The Government is supplying only 34% of its total commitments to small units.

5. In majority of units purchases are handled by inexperienced persons.

6. Quantity of materials purchased on every order is not economical.

7. Majority entrepreneurs do not have the practice of inspecting the purchases.

8. Small industrialists in majority do not appear to be aware of the importance of maintaining stores and stores records.

9. In 70% of cases material purchase and maintenance of stores is looked after by the proprietor himself.

10. No unit is fixing its product price scientifically taking production costs into consideration.

Conclusion:

Considering the above, we can conclude that there is no scientific material management in small scale sector in Rayalaseema. The purchase function is being carried on by the partners or proprietors who are inexperienced. Most of the
entrepreneurs are pre-occupied with a number of other problems, such as attending to customers, collecting debts, and meeting Government agencies, etc. The rest of their time is devoted to production problems. Thus they do not find enough time to bestow attention to materials management, which is very vital to the success of a unit.
SUMMARY

Materials being money the entrepreneur has to see that maximum economy is effected in procuring materials. These economies will result in reducing costs and increase profits. 'Materials Management', therefore, should be everybody's concern which require an integrated approach. It is more so with a small unit due to various internal and external constraints.

Scientific materials management in a small unit can be made possible with the steps mentioned hereunder.

1. Preparation of purchase and sales budgets.
2. Standardisation of production.
3. Purchase of materials at the E.O.Q. so that there is smooth flow of material into production involving minimum capital employment.
4. Maintenance of stores, stores records and,
5. Scientific pricing of sales.

All this can conveniently be implemented if a unit can employ a full time stores clerk. Even otherwise, if the proprietor is a bit industrious at the early stages of introducing the system, it will get set in the organisation at no extra cost. Within a limited time, favourable results can be noticed in the firm's operations.
CHAPTER VI

PERSONNEL MANAGEMENT
CHAPTER VI

PERSONNEL MANAGEMENT

1. IMPORTANCE OF LABOUR:

Success of an organisation depends upon

1. Money  4. Men and
3. Machinery

In the words of Oliver Sheldon,
"No industry can be rendered efficient so long as the basic fact remains unrecognised that it is principally human. It is not a mass of machines and technical process, but a body of men. It is not a complex of matter, but a complex of humanity. It fulfils its function not by virtue of some impersonal force, but by human energy. Its body is not an intricate maze of mechanical devices but a magnified nervous system."(1)

From the above quotation, we can understand that every industry small, medium or big should first recognise the importance of labour force.

(1) As quoted by C.B. Mamoria—Personnel Management:
Labourers being human beings cannot be operated like machines in a workshop. They can think, feel, act and understand the treatment given by their employer. Therefore, they need a tactful handling by people at the higher levels of management.

This is more so in the case of small units, where the number of labourers employed is comparatively less. The work turned out by them is of utmost importance as the very existence of the unit depends on the volume of production. If the workers resort to a 'go-slow' technique, the entrepreneur will be incurring heavy losses. If man power is properly utilised, it may prove to be a dynamic force for running an industry or an institution.

Thus each and every activity in an industrial unit, irrespective of its size, is connected with human beings. It may not be an exaggeration if we say that the success of an industry depends more on the relationship between the management and the managed.

Definition of Personnel Management:

In simple words, Personnel Management means managing personnel in such a way that very best is brought out of them. Many definitions of Personnel Management could be adduced to prove the point. For instance, American Management Association defines Personnel Management as:
"A code of the ways of organising and treating individuals at work so that they will each get the greatest possible realisation of their intense abilities, thus attaining maximum efficiency for themselves and their group and thereby giving to the enterprise of which they are a part its optimum results."(2)

According to Richard Calhoon, Personnel Management, "involves the task of handling the human problems of an organisation and is devoted to acquiring, developing, utilising and maintaining an efficient work force."(3)

Lawrence Appley, a former President of the American Management Association, has given the best possible definition of Personnel Management. According to him, "It is a function of guiding human resources into a dynamic organisation that attains its objectives with a high degree of morals and to the satisfaction of results through people."(4)

From the above definitions we understand that:

(1) Personnel management is concerned with securing satisfactory results with the co-operation of the

(2) Ibid - p.5
(3) Ibid - p.5
(4) Ibid - p.5
employees both as individuals as well as a group.

(2) Personnel Management includes selection, recruitment and training the workers to suit the needs of an organisation. Utilising the workforce to the optimum extent is also one of the tasks of Personnel Management.

(3) Personnel Management will be of much value to an organisation only when it is continuous and applied at all levels and to all management functions.

Thus Personnel Management can be considered as an integral part of scientific management.

Objectives of Personnel Management:

It is always calculated that Personnel Management fulfils certain objectives either short term/long term or primary/secondary. Unless these objectives are achieved the Personnel Management is said to be inefficient and unscientific. Important objectives are the following:

Primary Objectives:

(1) The workers should be made to perform their duties satisfactorily to achieve production targets.

(2) Labour Management should provide for personnel objectives of the members of an organisation.
This may be through monetary means and/or non-monetary means. Monetary means are profits to proprietors or owners, salaries and wages to employees. Non-monetary means are prestige, recognition and goodwill to the concern and security and status to the employees.

(3) Personnel Management should lead to proper service to the customers. The result will be provision of better living standards to the people.

**Secondary Objectives:**

Achieving the primary objectives economically, efficiently and effectively will be the secondary objective of Personnel Management.

Achievement of the above objectives depends upon:

(1) Products brought out or services rendered by an organisation, their need and usefulness to the public.

(2) Conditions of employment under which the employees are made to work. These should provide for motivating the worker with better performance for the success of the enterprise.

(3) The effective utilisation of men and materials in the productive work.

(4) The continuity (success) of the enterprise.
Benefits of Scientific Personnel Management:

Effective Personnel Management results in 'a loyal, efficient group of workers' which 'cannot be copied or purchased by competitors'.\(^{(5)}\) Thus good employee relations are established as a result of effective Personnel Management. This increases work efficiency. A contented, well looked after, band of workers will be loyal to their employers. They will be enthusiastic to attend to the customers, which may improve the goodwill of the organisation.

2. SMALL SCALE INDUSTRY AND PERSONNEL MANAGEMENT:

The reputation an organisation acquires in the community is closely associated with its employee relations. This is more so in the case of a small unit. Important reasons being that the large firm is better equipped to do its work quickly and effectively with specialised machinery and mechanical aids whereas the small unit must rely more on its personnel only.

The subtle human element in a small unit is identified by the close personnel relationship that normally exists between the owner and the employed. It often happens in small units, that employees consist

of family members and relatives of the proprietor. This situation may force the employees not to follow approved practices developed in large concerns in personal relations, due to the fact that

(1) the practices are too impersonal for the small number of employees in the unit and
(2) a lack of understanding in modern Personnel practices and their adoption to the prevailing conditions.

In reality there is very little need to introduce these practices if the owner has knowledge of each employee. In fact, a major reason for development of modern personnel practices is to make up this lack of personnel contact and understanding between management and employees.

Presence of family relations may lead to indiscipline in the unit. Separating these relations, from the organisation, therefore, will be advantageous for using modern personnel methods. In this background, let us see what is the position of personnel management in small units.

Personnel Management Practices in small units:

If a small firm limits its choice of methods to those used by other firms, it amounts to be repeating their mistakes and make very little progress.
For eg., If a small unit enjoys good employee relations without any organised personnel procedure the reasons may be more than one viz.,

(1) The owner (proprietor) may have the ability and personality to organise the labour.

(2) Employees may be contented and satisfied with their positions, salary, working conditions, welfare measures, etc.

A firm may be successful even in the absence of good employee, employer relations. For instance, though the labour cost is more, a firm can earn more profits if some expenses like rent, power charges, carriage, telephone bills, etc., are comparatively lesser than other units.

(3) the product brought out is an essential one and is fast moving enabling the unit to maximise production and thus achieve economies in production.

(4) the labour involvement in production is minimum. Hence it is very difficult to point out a specific reason for the success of a unit.

Similarly cases could be cited to illustrate various ways in which a small unit can exist without actually cultivating good employee relations. Such cases would prove that (1) inefficient labour management is fairly common among units which have less competition; (2) that many small entrepreneurs are satisfied with...
'mediocre' results. Good employer—employee relations in the above units could convert the 'average' concerns into more profitable ones. This could be achieved by utilising the man-power resources most productively. A tool, generally used by industrialists to better their performance is proper man-power planning or personnel programming. Personnel programme consists of

(1) Job Analysis,
(2) Job description and
(3) Job specification.

These components are useful to select, recruit and train personnel in their respective areas of work so that, they will be of maximum use to the organisation.

Job analysis:

Job analysis is the starting point in any Personnel Programme, irrespective of the size of the organisation. This will explain clearly the various operations to be followed in the manufacture or execution of work. Based on this job descriptions and job specifications are prepared.

Job Description:

A job description is a list of duties to be attended to by the person in charge of a job. This indicates the equipment to be used to perform the job and how one job is related to the other jobs in the organisation.
Job Specification:

A job specification indicates the personnel requirements, skill, experience, knowledge or education needed to perform the job satisfactorily.

Thus job analysis helps the organisation in the selection, placement, training and promotion of employees. Generally the remuneration payable to employees is based on the job descriptions and job specifications.

In a small organisation with few employees each job will involve more duties to a worker than is expected from him in a large concern. In a large scale unit as the number of workers is more, supervisors are appointed and are entrusted with the task of job analysis. In a small unit this work can be done by the owner himself with the co-operation of his workers. It will also be easy for a small entrepreneur to increase efficiency by simple observation and analysis. This will reduce supervision expenses, thus work can be done faster, better and cheaper. This may result in high profits to the unit.

If at any time the method of doing a particular job is improved, it should be standardised. Each time a standard is reached it should be maintained continuously with the co-operation of all employees. Such a practice will increase worker efficiency and reduce production costs. Thus the objective of operative efficiency can be achieved,
The position in Small Sector:

It is observed from the study that only a few units are adopting the technique of job analysis. The following table shows the details.

### TABLE 75

No. of Small Units Adopting Job Analysis

<table>
<thead>
<tr>
<th>Code No.</th>
<th>Industry Group</th>
<th>Sample Units</th>
<th>Units Practising Job Analysis No. to (5)</th>
<th>Percentage of Col. (4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 &amp; 21</td>
<td>Food Products</td>
<td>58</td>
<td>nil</td>
<td>-</td>
</tr>
<tr>
<td>22</td>
<td>Beverages</td>
<td>10</td>
<td>2</td>
<td>20</td>
</tr>
<tr>
<td>26</td>
<td>Hosiery and Garments</td>
<td>24</td>
<td>nil</td>
<td>-</td>
</tr>
<tr>
<td>28</td>
<td>Paper Products</td>
<td>62</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>29</td>
<td>Leather Products</td>
<td>12</td>
<td>nil</td>
<td>-</td>
</tr>
<tr>
<td>30</td>
<td>Rubber and Plastic</td>
<td>24</td>
<td>3</td>
<td>13</td>
</tr>
<tr>
<td>31</td>
<td>Chemicals</td>
<td>74</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>32</td>
<td>Mineral Products</td>
<td>36</td>
<td>nil</td>
<td>-</td>
</tr>
<tr>
<td>34</td>
<td>Metal Products</td>
<td>92</td>
<td>nil</td>
<td>-</td>
</tr>
<tr>
<td>35</td>
<td>Machinery and Machine Tools</td>
<td>20</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>36</td>
<td>Electrical and Electronics</td>
<td>14</td>
<td>5</td>
<td>36</td>
</tr>
<tr>
<td>37</td>
<td>Transport Equipment</td>
<td>12</td>
<td>nil</td>
<td>-</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>438</strong></td>
<td><strong>19</strong></td>
<td><strong>4.34</strong></td>
</tr>
</tbody>
</table>

Source: Data collected.
SMALLUNITS PRACTICING JOB-ANALYSIS

INDUSTRY GROUP

PERCENTAGE OF SAMPLE UNITS

BEVERAGES

PAPER PRODUCTS

RUBBER and PLASTICS

CHEMICALS

MACHINERY and MACHINE-TOOLS

ELECTRICAL and ELECTRONICS
Analysis:

It will be seen from the table that the technique is being employed only in six industry groups, viz.,

(1) Beverages (Code No.22)
(2) Paper Products (Code No.28)
(3) Rubber and Plastic (Code No.30)
(4) Chemicals (Code No.31)
(5) Machinery and Machine Tools (Code No.35) and
(6) Electrical and Electronics (Code No.36).

The technique seems to be in maximum use in Electrical and Electronic industry. 36% of units are practising job analysis, followed by Beverages (20%) and Rubber and Plastics (13%) Machinery and Machine Tools (10%). Only 5% units in Paper Industry are following this method. In totality only 4.34% of units are using this technique. This is a negligible percentage compared to total number of units. Several reasons could be adduced for this state of affairs, viz.,

(1) Majority units are in the tiny sector though are listed as small units. Hence entrepreneurs may feel that it is too expensive to introduce such methods.
(2) Number of workers employed is between 1 and 5

(6) 83.25% units in Rayalaseema have an investment of less than Rs.1 lakh each (see Table 55 Chapter IV)
(7) Refer Table 57 Chapter IV.
per unit. This small group may include family members as well. The employer, therefore, may not feel the need to introduce Personnel Management techniques.

(3) Lack of proper education and experience among the entrepreneurs leaves them unaware of the benefits of job analysis.

(4) It may not be possible for the entrepreneurs to introduce standard practices as many workers are temporary or casual employees.

3. RECRUITMENT AND SELECTION OF EMPLOYEES:

Generally small entrepreneurs recruit the employees from the available local talent. Due to this practice local people get more employment opportunities if more small units are established in a locality. But, there is a possibility that these workers may prefer work in large units if such unit exist in nearby localities. Higher pay or better working conditions offered by large units may account for this situation. This may result in dearth of labour to small sector. A small industrialist can overcome these handicaps only by offering better promotional opportunities, by offering better facilities to work.

(8) 60% entrepreneurs in Rayalaseema have studied only upto primary or secondary school level. Only 25% industrialists possess experience in the field in which they are employed.

(9) Further discussion on this point can be seen the later part of this Chapter.
(3) by paying wages comparable to those offered by large units.

Whatever may be the size of the unit, every industrialist should strive to create a public image of his unit and keep it as a "good place to work".

Sources of man-power for a small unit:

Generally a small entrepreneur will not follow the regular procedure of recruitment. Instead, he will be searching for eligible candidates and select them whenever necessary. The best sources of man-power, it is learnt, are friends and relatives of permanent employees, customers and suppliers. Employment exchanges also help organisations in selecting their employees. Entrepreneurs may depend upon any or some of the above sources in locating prospective employees. In any case, at the time of recruitment, it is desirable to follow certain standard recruitment procedures. Such procedures may be introduced easily in a small unit as compared to a large unit.

The Recruitment Process: (as applied to a small unit).

Following are a few steps in the recruitment process:

(1) Man specification;
(2) Determining the source of recruitment.
(3) Preparation of the application form.
(4) The interview;
(5) Tests;
(6) Checking the references;
(7) Conducting the medical examinations of
the applicant, where deemed desirable; and
(8) The final selection.

Let us examine the above steps, in a little more detail.

(1) The Man specification:

Job analysis, Job description and specification would give an idea of the type of candidate required for the job. Here the employer can specify the educational qualifications and experience, physical make up, aptitudes, etc., of the candidate. Special skills, if any, required to be possessed by the candidate can also be given note of at this stage.

(2) Source of recruitment:

These sources can be divided into two:
(i) internal and (ii) external.

Under the first category, the concern will try to find a suitable candidate among the existing staff, by promoting an employee from a lower cadre. This will improve personnel relations in an organisation. Thus, when there is a vacancy in an organisation, it
should first be offered to employees within the organisation itself.

The external sources of recruitment include:
(1) notifying the vacancies through press,
(2) reference to employment exchanges,
(3) making use of the voluntary applications received by the firm,
(4) use of special consultants for recruiting.

As already mentioned, many small units depend upon their employees, consumers and suppliers as sources for their requirements.

3. Preparation of the application form:

Number of procedures are followed in screening the applications. As a first step, the employer must obtain an application form from the prospective workers.

A specimen application form in a small unit is furnished below:
APPLICATION FOR EMPLOYMENT IN 'XYZ' INDUSTRIES

1. Name of the applicant:

2. Address to which communications may be sent:

3. Age and date of birth:

4. Sex:

5. Nationality: Religion:

6. (a) Educational Qualifications:
   (b) Experience:

7. Family history:
   (a) Father's name and address:
   (b) Father's occupation and annual income:

8. References: (1) Name:
   Address:

   (2) Name:
   Address:

Place:
Date: SIGNATURE OF THE APPLICANT

For Office use only:

(1) Date on which referers were contacted:
Reply:

(2) Interview/Test Date:

(3) Result: APPOINTED/WAITING LIST/NOT SELECTED/ABSENT.

(4) Date of reporting for duty:
   (in case of candidates appointed)

Signature of the authority.
Date:
An application should contain only relevant information that is useful to the employer in assessing the suitability of the candidate to the post applied for. The employer should also note that he should not ask for any information which is not necessary.

The application form should be tailored to suit the requirements or needs of a particular organisation.

Uses of application forms:

(1) The first use of an application form is that it eliminates the unqualified applicants.

(2) It serves as a guide to the employer at the time of interviewing the candidates.

(3) The application introduces the prospective employee to the employer.

(4) It serves as a permanent record to the organisation which may be of some use in future.

(4) The Interview:

On receipt of applications, the employer will scrutinise them. Then the eligible applicants will be called for an interview. If required the interview may be combined with a test or a series of tests. Based on their performance, in the interview and test, suitable candidates are selected and appointed.
Need for interview:

As a selection procedure the interview is necessary to judge the applicants' appearance, poise, speech and other characteristics. The employer should study the application form prior to interview in the light of the requirements of the post for which interview is being held. This enables the interviewer to assess individuals correctly. The interview may be conducted in accordance with a guide prepared by the interviewer.

The interview should be held in a quiet and calm atmosphere. The applicant should first be made to adjust to the environment, then only his/her capacities should be gauged. Usually in large companies two or three interviewers are present. In the case of a small unit an applicant may be interviewed only by one person, usually the proprietor or the partner.

As mentioned earlier, an application form introduces an applicant to the organisation. Similarly the interview should be utilised to introduce the organisation to the applicant. In other words, the interviewer should furnish important information regarding the job, conditions of employment, etc., to the prospective

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employee. Doubts, if any, raised by the applicant should also be cleared by the interviewer. If employed, the new comer should be encouraged to fit into the organisation. If rejected, the candidate should be made to leave with a feeling of goodwill towards the organisation.

(5) Tests:

Some of the organisations conduct tests in addition to interview. Usually, three types of tests are conducted for selecting personnel, viz., psychological tests, performance tests and physical examination. Psychological tests include tests relating to aspects like intelligence, aptitude, attitude and ability to learn, etc.

Some of the small entrepreneurs feel that conduct of tests, interviews, etc., will be costly. Some feel that such screening is not required as their operations are limited and are known to the common man. Opinions differ on the value of tests. However, where they are held they should be conducted by experts. Such guidance is available, to small units, from institutions like: Institutes of Business Management, Small Industries Extension Training Institute (SIET) and consulting psychologists.
It is observed from the study that in Rayalaseems small units employ volume of capital and less number of workers. Such being the case, these units may not be in a position to incur heavy expenditure in conducting psychological tests. Neither there is need for it. But performance tests could be conducted wherever necessary. Even this need not be too elaborate. It will be enough if a trial test is given to the applicant and his performance assessed.

Before conducting such tests every organisation should make sure that these are related to the job requirements. It should also be ensured that the tests are in tune with the laws, of the land, in force and practices in vogue.

(6) Checking references:

References given by the applicant have to be checked. This could be done either by mail or by telephone or through a personal visit. Whatever method is used, it will be necessary to verify the truthfulness of the information supplied, in the application and during the interviews.

In many units, reference verification is taken as a matter of routine and is not given much importance. Some even entirely omit checking references.
(7) **Medical Examination:**

Medical examination is a part of the selection process for all suitable applicants in some firms. Generally it is conducted after the final decision has been made to recruit a candidate for the job. At this stage, the medical fitness of the candidate to the post concerned will be checked. This examination should be as under: Physical examination should relate to the job requirements viz., strength, vision, audition and stamina. It should also be noted that the candidate is free from contagious diseases which may affect the health and safety of fellow workmen. During our study it was observed that except in chemical industry, in no other industry medical examination is given any prominence.

(8) **Final selection:**

On completion of all the stages mentioned above, the selected candidate will be served with an appointment order. This order should contain the terms of appointment, scale of pay, leave facilities, welfare facilities for which the candidate is eligible. A date will be given to the candidate to join. When the candidate reports for duty he will be inducted into service on completion of formalities, if any. This completes the different stages involved in recruiting personnel for various positions in an organisation.
Selection Procedures followed in small units of Rayalaseema:

Different selection procedures are followed by various industry groups based on the requirements, exigencies of the situation, the cost, and the availability of the work force. We do not find much of uniformity in the approaches and attitudes of industrialists.

Table given below delineates the selection procedures followed:
<table>
<thead>
<tr>
<th>Code No.</th>
<th>Test and/or interview</th>
<th>Application only</th>
<th>Direct*</th>
</tr>
</thead>
<tbody>
<tr>
<td>20/21</td>
<td>40 100</td>
<td>4 10</td>
<td>36 90</td>
</tr>
<tr>
<td>22</td>
<td>8 100</td>
<td>2 25</td>
<td>36 90</td>
</tr>
<tr>
<td>26</td>
<td>24 100</td>
<td>2 25</td>
<td>36 90</td>
</tr>
<tr>
<td>28</td>
<td>44 100</td>
<td>4 10</td>
<td>36 90</td>
</tr>
<tr>
<td>29</td>
<td>12 100</td>
<td>2 16</td>
<td>10 84</td>
</tr>
<tr>
<td>30</td>
<td>16 100</td>
<td>3 19</td>
<td>13 81</td>
</tr>
<tr>
<td>31</td>
<td>52 100</td>
<td>4 8</td>
<td>19 73</td>
</tr>
<tr>
<td>32</td>
<td>36 100</td>
<td>4 10</td>
<td>36 100</td>
</tr>
<tr>
<td>34</td>
<td>92 100</td>
<td>2 25</td>
<td>36 100</td>
</tr>
<tr>
<td>35</td>
<td>12 100</td>
<td>2 16</td>
<td>10 84</td>
</tr>
<tr>
<td>36</td>
<td>14 100</td>
<td>5 36</td>
<td>28 36</td>
</tr>
<tr>
<td>37</td>
<td>9 100</td>
<td>1 12</td>
<td>7 88</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>358 100</strong></td>
<td><strong>21 6</strong></td>
<td><strong>36 10</strong></td>
</tr>
</tbody>
</table>

* Recruitment of personnel even without application is shown as Direct Recruitment.

Source: Data collected through questionnaires.
SELECTION PROCEDURES IN SMALL SECTOR
(Percentages to total number of units)

Direct recruitment
84%

Recruitment through test & interview
6%

Recruitment with application only
10%
Analysis:

A close look at the table reveals that recruitment procedure in the small sector is not systematic. Only 6% units are conducting tests and or interviews. 10% of the units employ workers on receiving a written requisition (application) from the prospective employees. 84% of entrepreneurs seem to recruit workers direct even without an application.

Test or interview is conducted only in 36% units in the Electrical and Electronics industry (Code No.22). 19% of Rubber and Plastic units (Code No.30) also hold interviews. A minor percentage of units in Machinery and Machine tools (Code No.35), Paper products (Code No.28), Chemicals (Code No.31) and Transport equipment (Code No.37) also use tests or interviews for selecting workers. Thus we can see a variety in approaches, sometimes standard and otherwise in most cases.

Non-adoption of standard selection procedures can be attributed to the following reasons:

(1) Limited capital investment,

(2) Lack of knowledge of the systematic selection procedures,

(3) A thinking by the entrepreneurs that this procedure is costly and may not suit their
organisations as they recruit only limited number or handful workers,

(4) Temporary recruitment may not require the adoption of such detailed procedure, and

(5) Presence of family labour in the work force may not require the systematic selection procedure.

Sources:

It is observed that in majority of units the main sources are friends and relatives of the entrepreneur and that of existing workers. The employer feels that the worker he gets is trustworthy as he (worker) is introduced by a person (a relative or a reputed worker) known to him (owner). The worker also feels secured in the hands of his proprietor as he (the worker) is brought into the job by a person whom he (worker) respects. Thus both the employer and the employee feel that there is need for anything to be in writing as there exists a mutual trust.

Every organisation should invariably obtain a written requisition or application form from the employee before selection is finalised. This should be kept in the personnel file of the institution together with the additional reports that may be built up in future. Such a record will enable the employer to assess the ability and integrity of the employee. This will also be useful for promoting an
employee or for taking disciplinary action, if the situation warrants.

**Distinguishing between skilled and unskilled workers:**

A worker is after all a human being and each of his acts is governed by his psychological feelings. Hence, it can rightly be said that a mentally satisfied worker can always turn out more work compared to a worker who is mentally dissatisfied. Such being the case, every employer should find out the abilities of each of his workers and reward him suitably. That means, a skilled worker should be paid a higher wage (considering the complicated job he attends to) than what is paid to an unskilled worker.

This point is made clear by the following example:

**Example:** Let us take the case of a machine operator and an office attendant in an organisation.

A machine operator requires certain amount of skill to handle the machine. He may be required to possess technical qualification and experience, whereas an office attendant needs no technical qualification to do his job. Hence, the operator will expect a higher remuneration compared to the attendant. Then only he will have some mental satisfaction and put forth the best of his efforts. Our study brings out the following picture on this vital issue:
In majority units even the operations requiring the services of skilled workers are entrusted to unskilled workers. Perhaps the most important reason for this is the financial incapacity of the proprietor to pay high wages to skilled workers.

In this background, let us examine the composition of the work force in the small sector of this region.

Table given below shows the structure of skilled and unskilled workers.
TABLE 77

COMPOSITION OF SKILLED AND UNSKILLED LABOUR FORCE IN SMALL SECTOR

(percentage to total labour force in responded sample units)

<table>
<thead>
<tr>
<th>Industry Code No.</th>
<th>Composition of</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Skilled labour</td>
<td>Unskilled labour</td>
</tr>
<tr>
<td>20 &amp; 21</td>
<td>13.25</td>
<td>86.75</td>
</tr>
<tr>
<td>22</td>
<td>11.00</td>
<td>89.00</td>
</tr>
<tr>
<td>26</td>
<td>16.88</td>
<td>83.12</td>
</tr>
<tr>
<td>28</td>
<td>19.75</td>
<td>80.25</td>
</tr>
<tr>
<td>29</td>
<td>10.00</td>
<td>90.00</td>
</tr>
<tr>
<td>30</td>
<td>20.55</td>
<td>79.45</td>
</tr>
<tr>
<td>31</td>
<td>17.44</td>
<td>82.56</td>
</tr>
<tr>
<td>32</td>
<td>5.33</td>
<td>94.67</td>
</tr>
<tr>
<td>34</td>
<td>5.10</td>
<td>94.90</td>
</tr>
<tr>
<td>35</td>
<td>22.58</td>
<td>77.42</td>
</tr>
<tr>
<td>36</td>
<td>9.15</td>
<td>90.85</td>
</tr>
<tr>
<td>37</td>
<td>38.46</td>
<td>61.54</td>
</tr>
</tbody>
</table>

Region Average 12.00 88.00 100.00

Source: Field study notes.

Analysis:

A study of the above table reveals that skilled worker account only for 12% of the total labour force compared to unskilled labour force which stands at 88%. This disproportionate composition reveals that unskilled labour is being engaged in place of
skilled labour in many units. This is an unhealthy practice. As a result, the cost of production may go up as the unskilled labourer may take more time to complete the job. Wastage in production process may also be more and finished products brought out may not be of a desired quality. Hence, there is an imperative need that 'a right' man should be appointed to perform 'a right' job.

4. EMPLOYEE TRAINING:

"Training is a short term process utilising systematic and organised procedure by which non-managerial personnel learn technical knowledge and skills for a definite purpose."(11)

In the words of Campbell,

"training courses are typically designed for a short term, stated set purpose, such as the operation of some pieces of machinery."(12)

Thus, training refers to technical and mechanical instruction given to a worker in performing a job.

(11) and (12) : As quoted by C.B.MAMORIA:
opt.cit. : p. 251.
Instructions given to managerial personnel is called development. (13)

Need for training:

Some preliminary training in standard work methods, will be of immense use to a new worker. This may be for a few hours, a few days or even a few weeks or months depending upon the nature of the work and the workers' ability to grasp. Apart from that, a training programme is essential:

1. to increase labour productivity; as training will improve the performance of a worker.

2. to improve quality of production: trained workers are less likely to make operational mistakes. Thus quality of production can be maintained. This will also reduce labour cost per unit.

3. to identify workers eligible for promotions: Training facilitates the discovery of promotion worthy employees. For eg., two workers 'A' and 'B' are trained in a particular job. 'A' completes the course earlier to 'B'. All other things being equal 'A' can be considered as shrewd and more capable. Thus 'A' may be selected

(13) The number of managerial personnel engaged in the small sector is negligible. Hence it was felt that a detailed discussion on development is not necessary.
for a higher position in the organisation.

(4) to improve health and safety:
Proper training can help prevent industrial accidents. A safer work environment leads to more stable mental attitudes on the part of employees.

(5) to prevent obsolescence:
Training old employees to keep them abreast of latest techniques and use of sophisticated tools and equipment. This will prevent man-power obsolescence.

**Benefits of training:**

Thus a training programme will result in

(a) increased productivity;
(b) reduction in labour cost per unit;
(c) improvement in the quality of the product manufactured;
(d) a reduction in the total production expenses due to minimum wastage in the production process;
(e) promotions and career development of the worker;
(f) a congenial work atmosphere to the employees;
(g) prevention of man-power obsolescence.

In short, effective training to workmen will enhance overall organisational effectiveness.
TRAINING METHODS SUITABLE TO SMALL UNITS:

ON-THE-JOB-METHODS:

1. On-The-Job-Training:

On the job training is most suited to a small unit. Under this method an employee is placed in a new job and is instructed how to perform it. This type of training is mostly given for unskilled and semi-skilled jobs. Employees learn the job by personal observation and practice. Usually experienced and skilled workers coach and instruct freshers.

2. Training by experienced workers:

Under this method, training is imparted by experienced senior fellow workers. It is particularly used where a worker need helpers or assistants.

3. Apprenticeship:

This is the oldest method of training. For training people in crafts, trades and in technical areas over a long period and to impart proficiency in a job or trade apprenticeship training is commonly used. A major part of training time is spent on-the-job doing productive work. Each apprentice is given a programme of assignments according to a predetermined schedule which provides for efficient training in respective areas of work.
The position in the region:

Having discussed about the need, uses and various methods of training, let us know something about the practices in small sector in Rayalaseema. Following table shows the number of units imparting training to labourers.

**TABLE 78**

**TABLE SHOWING THE DETAILS RELATING TO AVAILABILITY OF TRAINED WORKERS IN SMALL SECTOR**

<table>
<thead>
<tr>
<th>Code No.</th>
<th>Total Units</th>
<th>No. of Units imparting training</th>
<th>Percentage of Cols.3 to 2</th>
<th>Total work force</th>
<th>Work force trained</th>
<th>Percentage of Cols.6 to 5</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
<td>(5)</td>
<td>(6)</td>
</tr>
<tr>
<td>20/21</td>
<td>24</td>
<td>-</td>
<td>24.9</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>22</td>
<td>4</td>
<td>2</td>
<td>50</td>
<td>64</td>
<td>30</td>
<td>46.88</td>
</tr>
<tr>
<td>26</td>
<td>8</td>
<td>3</td>
<td>38</td>
<td>77</td>
<td>26</td>
<td>33.77</td>
</tr>
<tr>
<td>28</td>
<td>20</td>
<td>10</td>
<td>50</td>
<td>162</td>
<td>94</td>
<td>58.02</td>
</tr>
<tr>
<td>29</td>
<td>6</td>
<td>2</td>
<td>33</td>
<td>40</td>
<td>5</td>
<td>12.50</td>
</tr>
<tr>
<td>30</td>
<td>9</td>
<td>3</td>
<td>33</td>
<td>253</td>
<td>90</td>
<td>35.57</td>
</tr>
<tr>
<td>31</td>
<td>23</td>
<td>10</td>
<td>44</td>
<td>367</td>
<td>136</td>
<td>37.05</td>
</tr>
<tr>
<td>32</td>
<td>16</td>
<td>7</td>
<td>42</td>
<td>319</td>
<td>98</td>
<td>30.72</td>
</tr>
<tr>
<td>34</td>
<td>33</td>
<td>16</td>
<td>50</td>
<td>646</td>
<td>186</td>
<td>28.79</td>
</tr>
<tr>
<td>35</td>
<td>3</td>
<td>-</td>
<td>-</td>
<td>31</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>36</td>
<td>7</td>
<td>5</td>
<td>71</td>
<td>142</td>
<td>98</td>
<td>69.00</td>
</tr>
<tr>
<td>37</td>
<td>3</td>
<td>2</td>
<td>66</td>
<td>26</td>
<td>18</td>
<td>69.23</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>156</strong></td>
<td><strong>60</strong></td>
<td><strong>38.46</strong></td>
<td><strong>2376</strong></td>
<td><strong>781</strong></td>
<td><strong>32.87</strong></td>
</tr>
</tbody>
</table>

Note: Data relate only to responded sample units.

Source: Data collected.
Analysis:

The data reveals that training new recruits is popular among Electrical and Electronic industry (Code No.36), Transport Equipment (Code No.37) Beverages (Code No.22), Paper products (Code No.28) and Metal products (Code No.34) respectively.

This practice is totally absent in Food Products (Code No.21) and Machinery and Machine Tools (Code No.35) industries. In total only 38% units in the sector seem to be following the practice of providing training to newly appointed workers.

Coming to the density of trained labour in the total work force, units dealing in Transport equipment (Code No.37) (69.23%) rank first followed by Electrical and Electronic industry (Code No.36 (69%). Next comes Paper products (Code No.28) (58.02%). On average 32.87% of the work force in the sector is trained while the rest 67.13% remain untrained.

As mentioned earlier proper training to employees results in increased productivity, improvement in quality of the products etc. Lack of training facilities will lead to:

(1) low productivity;
(2) low quality of the products brought out;
(3) increase in wastage and production costs;
(4) a rise in labour cost per unit;
(5) lack of recognition of efficient workers and
(6) a loss to the organisation.

Off-the job-training or Management Training:

This is meant for the development of managerial
and organisational ability of the employees. They are
also termed as ‘development programmes.’ Generally
such training courses will be held away from the actual
work spot. For the development of managerial skill
in small entrepreneurs a number of Government insti­
tutions and departments are conducting such training
programmes. Management Development Programmes and Entre­
prenurial Development Programmes conducted by certain
Government institutions (S.I.D.C., DIC., Department
of Industries, etc.,) are the best examples of such
courses.

Need for Management training:

At present there is a significant change in the
volume of capital, technical aspects involved and the
legal procedures to be followed in the promotion as
well as running of a small unit. At every stage the
policies of Central and State Governments and the
local bodies play a significant role. These have
complicated the task of managing a small unit. To get
an understanding of the whole process, of starting and running a unit, an industrialist requires training in management practices.

The objectives of management courses for small entrepreneurs are: (14)

(1) To provide the management with such tools as will enable it to achieve short term results in the form of lower costs or a bigger volume of sales;

(2) To impart to the management the knowledge it needs to effect basic changes in the firm's structure or policy, so that long term benefits may secure to it and

(3) To enable the management to deal with the problems of management succession by providing for the son or successor as owner manager.

Types of courses:

There are three types of courses viz.,

(1) Management appreciation courses,
(2) Specialised courses in selected subjects and
(3) Ad hoc courses, as already mentioned, by institutions. (15)

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(14) DESAI VASANT: op. cit: p. 108.
(15) Please see page 328 for some more details.
Extension Training Centre (SIET), Small Industries Service Institutions (SISI), Central Small Industries Organisation and the Department of Industries of respective States.

On enquiry, it is learnt that only around 4%\(^{(16)}\) of entrepreneurs have undergone Management training. Considering the size of the problem this is very significant.

**Reasons for poor response to Management Training Courses:**

1. Entrepreneurs are unaware of the existence of such courses.
2. Lack of interest among the industrialists to undergo such a training.
3. Courses being conducted at a few selected centres at long intervals.
4. Lack of adequate publicity about the nature of the courses, their contents and usefulness to entrepreneurs.
5. Indifferent attitude of the Personnel in charge of the programmes, etc.

**PROMOTION PROSPECTS IN SMALL UNITS:**

It may not be proper and desirable to make a worker to do the same job over the years. As days pass on an employee will be gaining experience in

\(^{(16)}\) Based on Personal interviews with entrepreneurs.
doing a job. As there is an improvement in the quality of his work, the incumbent will be aiming at reaching higher positions, involving higher responsibilities which may also increase his earnings. This can be called as an aspiration for a promotion.

'Promotion' is a term which covers a change of the position and calls for greater responsibilities. Promotion usually involves higher pay, better terms and conditions of service and therefore a higher status.

Promotion is a process of making an employee feel that his services are recognised by the management. This will make a worker feel that his abilities are taken note of and rewarded. Thus he will be willing to put forth maximum efforts to the development of the organisation. Every institution big or small therefore should have a policy of promoting personnel to higher positions.

Promotions are given only to permanent employees.(17)

Position of Permanent staff in small sector:

It is noticed that not even one unit is following any promotion policy worth a mention. Besides, there

(17) Usually employees in an organisation are classified into three categories viz., (1) Permanent (2) temporary and (3) casual or daily workers. This does not include family members as workers.
seem to be no cadres prevalent among workers of
many organisations. This may be due to the presence
of casual labourers of a higher proportion compared
to the strength of permanent workers. A look at the
following table will make this point clear.
### TABLE 79

**COMPOSITION OF LABOUR FORCE IN SMALL SECTOR OF RAYALASEEMA:**

(Percentage to total labour employed)

<table>
<thead>
<tr>
<th>Code No.</th>
<th>Category of workers</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Family</td>
<td>Permanent</td>
</tr>
<tr>
<td>20 &amp; 21</td>
<td>12</td>
<td>21</td>
</tr>
<tr>
<td>22</td>
<td>3</td>
<td>38</td>
</tr>
<tr>
<td>26</td>
<td>12</td>
<td>5</td>
</tr>
<tr>
<td>28</td>
<td>15</td>
<td>63</td>
</tr>
<tr>
<td>29</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>30</td>
<td>2</td>
<td>29</td>
</tr>
<tr>
<td>31</td>
<td>4</td>
<td>32</td>
</tr>
<tr>
<td>32</td>
<td>2</td>
<td>31</td>
</tr>
<tr>
<td>34</td>
<td>2</td>
<td>62</td>
</tr>
<tr>
<td>35</td>
<td>16</td>
<td>35</td>
</tr>
<tr>
<td>36</td>
<td>-</td>
<td>81</td>
</tr>
<tr>
<td>37</td>
<td>-</td>
<td>39</td>
</tr>
</tbody>
</table>

**Note:** Permanent employees are those who are not likely to leave or be asked to leave the organisation for a sufficiently long time to come. These workers will have a long standing in the unit. Thus they will be experienced in a particular field of activity.

Temporary workers will be fresh recruits. Their stay in the institution may or may not continue over a long period of time. At the same time they will not be sent out in a comparatively short period of time.

Casual workers are daily workers engaged for doing daily labour. In this case, no guarantee is given to the worker that he will be engaged the next day.

Family workers are members of the owner's family working in the organisation.

*Source: Field Study.*
Analysis:

It can be noticed from the table that the labour population of small sector consists of family workers (7%), permanent employees (38%) and casual labourers (55%).

Permanent labour is more in Paper industry (Code No. 28) (63%), Metal Products (Code No. 34) (62%) and Electrical and Electronics Industry (Code No. 36 (81%) respectively. Perhaps this may be due to the fact that in all these industries experienced workers are needed.

For eg., (1) Composers, Printers, Binders in printing industry,
(2) Moulders, Designers and Polishers in a Brass Utensil Manufacturing Unit,
(3) Wire twisters, assemblers in Electrical Units, etc.

It will take a long time to train a new recruit in such units, as considerable skill and experience is required to efficiently perform the jobs. Hence more number of permanent employees are operating in these units. In other industries it is observed that work can be carried on even with casual labour, Perhaps that may be the main reason for more number of casual workers.
Our enquiries with many employees on this structure of the labour force have brought out answers indicating the following reasons.\(^{18}\)

1. Permanent staff claims higher wages and facilities like E.S.I., Insurance, Provident Fund, etc. They also require annual increments in salary and regular promotions, etc. Thus labour cost may go up.

2. When permanent labour is employed legal formalities to be complied with are numerous. This will increase clerical work. As a result, administrative costs will go up.

3. In seasonal industries, volume of permanent employees is minimum. Otherwise, the workers are to be paid wages even during lean periods. This may result in loss to the organisation.

4. Non-availability of raw material in required quantity may lead to uncertainty in the volume of output. Under these circumstances, it is difficult to estimate the labour requirement. Hence it is difficult to entertain the workers on permanent basis.

\(^{18}\) Based on Personal interview notes.
A section of entrepreneurs are of the opinion that the workers will always be one step out of the organisation. They will be moving from place to place seeking higher wages. So the question of employing labour on permanent basis does not arise.

In this background one can conclude that majority of small entrepreneurs are not in favour of engaging labourers permanently and offer promotions to them. They feel that such a policy may increase their wage bill and reduce profits. Perhaps this is a wrong notion. As discussed previously, permanent labour will always be an asset to the organisation and will positively help increase the profits of the unit.

Lack of sufficient number of permanent personnel may lead to

1. Production of inferior products of varying quality,
2. Increased labour turnover,
3. Increase in idle capacities due to non-availability of labour,
4. Increase in wastages due to appointment of inexperienced personnel.

Thus it can be said that the increase in the wage bill of a unit due to employment of permanent labour will
definitely be less than the indirect losses as a result of maintaining temporary or casual workers.

5. **WAGE AND REMUNERATION:**

**JOB EVALUATION:** We have noted in the previous discussion, that job analysis provides data required for selection, training, placement, transfer and promotion of employees. It also acts as a basis for determining the relative worth or value of each job in an industry. This process of determining relative worth of each job is termed as "Job Evaluation". Such an evaluation helps the industrialist in fixing up the salary or wage payable to his employees.

**Salary vs. Wage:**

If a worker is paid by the end of a month or year, he is considered to be in receipt of a salary. If he is paid hourly or daily or based on production, he is stated to be receiving wages. It may not be wrong to state that wage and salary mean the same in the widest sense as both refer to the compensation paid to the employee for the services rendered. Another distinction is compensation to white collar job is salary and compensation to blue collar job is wage or payments to persons working in the factory is called wage and payments to others is salary.
Criterion for wage fixation:

In any industrial unit wages are fixed on the basis of the following factors:

(1) Ability of the concern to pay,
(2) Duties to be performed by the worker,
(3) Conditions under which the work is performed,
(4) Qualifications required for the job, etc.

Methods of wage payment:

A small unit will always be interested to adopt simpler systems of wage payment better suited to its needs. Time wage plan and the output or piece wage plan are the two simple systems suited to the small sector.

Time Wage:

This is the oldest and the most common method of fixing wages. Under this system, workers are paid according to the work done during a certain period of time at a fixed rate per hour, per day, per week, per month or for any other fixed period of time. The volume of work turned out by a worker is not taken into consideration in fixing the wages under this system. The worker is paid at the agreed rate as soon as the time contracted is spent. The formula for computation of wages under this system is as under:
WE = T x R
Where WE = Worker's Earnings.
T = Time spent.
R = Rate per fixed period.

Piece Wage:

Under this system, workers are paid according to the amount of work done or the number of units completed. The wage rate per unit will be fixed and this will not be linked to the time taken to complete the job. There is an indirect implication that slow workers will be removed from the rolls, as continuation of such people will increase cost of production. The earnings of a worker can be calculated by adopting the following formula under this system:

WE = N x R
Where WE = Worker's Earning,
N = Number of pieces produced
R = Rate per piece.

Wage differentials:

Generally there will not be uniformity in wages paid to workers in the industrial sector, though the work done by them is the same or similar. These differences may be due to: (19)

(19) Based on the discussions by C.R. MANORIA : op.cit. pp.409 - 413.
(1) the conditions prevailing in the labour market,
(2) the extent of utilisation of labour and the bargaining power of the employees and workers,
(3) the government regulations in force in different places,
(4) the economic, industrial and social conditions in the country,
(5) the prevailing customs and traditions in the area and
(6) the prevailing rates of wages, etc.

PRACTICES IN THE SMALL SECTOR:

Our study indicates that in 80% of sample units wages are fixed on the principle of "ability to pay". The other factors are ignored in deciding the wage fixation. Only in 20% units (belonging to Beverages, Plastics, and Electrical and Electronic industries) wages are paid on the basis of a few other factors mentioned already. This may be one of the reasons for employing more casual workers by many units.

The table below presents the relevant picture on the systems of wage payment.
### TABLE 80

**WAGE PAYMENT PRACTICES IN SMALL UNITS**

(Percentage to total No. of units responded)

<table>
<thead>
<tr>
<th>Industry Code No.</th>
<th>Payment according to</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Time rate</td>
<td>Place rate</td>
</tr>
<tr>
<td>20/21</td>
<td>45.83</td>
<td>16.67</td>
</tr>
<tr>
<td>22</td>
<td>100.00</td>
<td>-</td>
</tr>
<tr>
<td>26</td>
<td>-</td>
<td>100.00</td>
</tr>
<tr>
<td>28</td>
<td>100.00</td>
<td>-</td>
</tr>
<tr>
<td>29</td>
<td>-</td>
<td>100.00</td>
</tr>
<tr>
<td>30</td>
<td>100.00</td>
<td>-</td>
</tr>
<tr>
<td>31</td>
<td>86.96</td>
<td>15.04</td>
</tr>
<tr>
<td>32</td>
<td>26.67</td>
<td>13.33</td>
</tr>
<tr>
<td>34</td>
<td>43.33</td>
<td>40.00</td>
</tr>
<tr>
<td>35</td>
<td>100.00</td>
<td>-</td>
</tr>
<tr>
<td>36</td>
<td>100.00</td>
<td>-</td>
</tr>
<tr>
<td>37</td>
<td>100.00</td>
<td>-</td>
</tr>
<tr>
<td><strong>Regional Average</strong></td>
<td>62.58</td>
<td>22.58</td>
</tr>
</tbody>
</table>

Source: Field Study data.

**Analysis:**

It can be seen from the table that majority (62.58%) of small units are making wage payments based on time rates only. Piece wages are paid only in 22% of units. Piece rates are popular...
among units in Garments (Code No. 26) and Leather Products (Code No. 29). 40% units in Metal Products (Code No. 34) are also following piece rate system. 60% units in Mineral Products pay wages both in time and piece rates. This situation tells us that majority small units prefer to pay wages based on time rates than piece rates. The following reasons may be adduced for this choice:

(1) The time wages are simple to calculate and involves less clerical labour.

(2) The entrepreneur may be of the opinion that he can make use of the services of the worker better under this system.

(3) As the worker is sure of a minimum wage he will evince more interest in the work.

6. INCENTIVES AND WAGE SUPPLEMENTS:

Incentive is an additional remuneration paid to a worker over and above his normal wage earnings. According to the National Commission on Labour, "Wage incentives are extra financial motivation. They are designed to stimulate human effort by rewarding the person, over and above the time rated remuneration, for improvements in the present or targeted results."(20) The incentive

is a system of payment in addition to normal wage under which the amount payable is linked with the output. Such payments are made by the industrialists to increase a worker's productivity.

Types of incentives:

Incentives may be (1) Monetary and (2) non-monetary. Monetary incentives include time allowance systems, payment by results (linked to output), group bonus, other bonus plans like Rowan Plan, Halsey plan, Gnaat task Bonus system, Emerson's plan, etc. Monetary incentives increase the total earnings of a worker as they are paid in addition to his regular wages.

Non-monetary incentives include training facilities, sympathetic attitude of the higher authorities towards their subordinates, job-security, welfare schemes, promotions, etc. These are also called as wage supplements.

Wage supplements are also referred to as 'fringe' benefits. In case of small sector, these include items like paid holidays, sick leave, group insurance, provident fund contributions and medical facilities, etc. In the case of employees drawing fat salaries, wage supplements take the name of perquisites.
Following are the objectives of incentive schemes: (21)

(1) To improve the profit of the firm through a reduction in the unit costs of labour and materials or both.

(2) To avoid or minimise additional capital investment for the expansion of production capacity.

(3) To increase a worker's earnings without dragging the firm into a higher wage rate structure regardless of productivity.

(4) To use incentives as useful tools for securing a better utilisation of manpower, better production scheduling and performance control and a more effective personnel policy.

The structure of wage supplements in Rayalaseema:

Incentives and wage supplements practised among small units of Rayalaseema are shown in the table below.

(21) C.B. MAMORIA - op.cit. p. 418.
<table>
<thead>
<tr>
<th>Industry Code No.</th>
<th>Percentage of units offering</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Bonus plus additional incentives</td>
<td>Bonus only</td>
</tr>
<tr>
<td>20/21</td>
<td>17</td>
<td>39</td>
</tr>
<tr>
<td>22</td>
<td>75</td>
<td>-</td>
</tr>
<tr>
<td>26</td>
<td>-</td>
<td>25</td>
</tr>
<tr>
<td>28</td>
<td>5</td>
<td>38</td>
</tr>
<tr>
<td>29</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>30</td>
<td>44</td>
<td>22</td>
</tr>
<tr>
<td>31</td>
<td>22</td>
<td>35</td>
</tr>
<tr>
<td>32</td>
<td>6</td>
<td>56</td>
</tr>
<tr>
<td>34</td>
<td>9</td>
<td>33</td>
</tr>
<tr>
<td>35</td>
<td>33</td>
<td>67</td>
</tr>
<tr>
<td>36</td>
<td>25</td>
<td>37</td>
</tr>
<tr>
<td>37</td>
<td>15</td>
<td>25</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>20.61 or 21</strong></td>
<td><strong>31.41 or 31</strong></td>
</tr>
</tbody>
</table>

Source: Field Study.

Analysis:

It can be observed from the table above that only 21% of the units offer both incentives and wage supplements to workers. 31% of the units
INCENTIVES TO WORKERS IN SMALL SECTOR
(Percentages to total number of units)

- Units offering incentives plus bonus: 21.0%
- Units offering only bonus: 31.0%
- Units offering no incentives: 48.0%
offer only bonus. 48% of the units are neither offering incentives nor wage supplements. It can be noticed that only in Beverages industry 75% of the units are paying monetary as well as non-monetary incentives like supply of uniforms, leave with pay, medical care etc. No unit in the leather products group is paying incentives to workers.

It is noticed during the field survey that majority of the units (more than 80%) are not implementing any welfare schemes (such as providing education facilities, canteen facilities, pensions, etc.) A common explanation furnished by the entrepreneurs is that the number of workers in a factory is very less and it may not be economical for the proprietor to introduce any welfare measure.

Non-payment of incentives and non-provision of wage supplements may result in frequent drop outs in employees. This increases labour turn over. It will also lead to low productivity as new workers will take time to get acquainted with their assignments. Sometimes the employee may have to go without a worker suited to his needs. Thus production may get reduced. All these are bound to result in low rates of returns to entrepreneurs.
7. PERSONNEL AND EMPLOYEE RELATIONS IN SMALL SECTOR:

As discussed in the preceding pages, the good will a small business acquires in the community depends upon the relations between the proprietor and employee. Customers can easily understand employee’s attitudes with their management. If the relations are cordial, the band of workers in the organisation will be loyal to management. They (workers) will deal with customers tactfully and improve business. This will also improve the firm’s public relations. Thus a contented, well looked after ‘corporations of workers’ will be ‘a major asset to the small unit’. (22)

An employer will be able to extract maximum work from his employee by maintaining cordial relations. The fact that in a small concern, each individual carries a longer share of responsibility makes these attitudes all the more important.

Better relations can be maintained by adopting the following:

(1) The entrepreneur should see that his employees are made to work in a friendly atmosphere. He must understand the ‘Hallo’ effect in management and act accordingly.

(2) Working conditions should be in accordance with the job requirements and status of employees.
(3) Employer should be willing to attend to the employee's need to a possible extent.

(4) Workers suggestions should be considered, wherever practicable, while making any changes in organisational set up or in production process.

(5) Entrepreneurs should always be willing to hear the complaints, if any, about the management. Thus information can generally be gathered by using the 'exist-interview' technique.

Apart from those mentioned above, presentation of awards for constructive suggestions will go a long way in improving employer-employee relations.

Offering promotions, periodical increments in wages, incentives and wage supplements will also improve labour relations in an organisation.

If there are cordial relations between the management and the workers personnel relations in the organisation may be said to be positive. Otherwise, it may be considered to be negative. The condition of personnel and employee relations in small sector is projected in the following table.
TABLE 82
PERSONNEL RELATIONS IN SMALL SECTOR
(Percentage to total responded units)

<table>
<thead>
<tr>
<th>Code No.</th>
<th>Personnel Relations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Positive</td>
<td>Negative</td>
</tr>
<tr>
<td>20/21</td>
<td>59</td>
<td>14</td>
</tr>
<tr>
<td>22</td>
<td>75</td>
<td>-</td>
</tr>
<tr>
<td>26</td>
<td>25</td>
<td>50</td>
</tr>
<tr>
<td>28</td>
<td>52</td>
<td>14</td>
</tr>
<tr>
<td>29</td>
<td>50</td>
<td>17</td>
</tr>
<tr>
<td>30</td>
<td>67</td>
<td>11</td>
</tr>
<tr>
<td>31</td>
<td>61</td>
<td>9</td>
</tr>
<tr>
<td>32</td>
<td>69</td>
<td>-</td>
</tr>
<tr>
<td>34</td>
<td>66</td>
<td>-</td>
</tr>
<tr>
<td>35</td>
<td>70</td>
<td>15</td>
</tr>
<tr>
<td>36</td>
<td>100</td>
<td>-</td>
</tr>
<tr>
<td>37</td>
<td>75</td>
<td>-</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td>61</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: Data collected.

**Analysis:**

As can be observed from the above table that personnel and employee relations in small sector appear to be satisfactory in majority units. All the units in Electric and Electronic industry (Code No.36), 75% of the units in Beverages (Code No.22)
and Transport equipment industry (Code No.37) possess cordial relations with their employees. Only in Hosiery and Garments industry (Code No.26) 50% units do not appear to be maintaining satisfactory relations.

**Absenteeism and Labour turnover in Small Sector**

**Absenteeism:**

Absence of an employee from work when he is scheduled to be at work is termed as absenteeism. When an employee stays away from work by applying leave, such an absence is called authorised absence. If absence is without prior permission, it may be treated as unauthorised absence. Reasons for unauthorised absence may be:

1. Strike declared by Trade Unions.
2. Certain circumstances like accident on way to factory.
3. Lack of proper transport facilities to the work spot.
4. Attending to supplementary work for earning higher wages.
5. Lack of proper control on workers by the proprietor.
6. The habit of alcoholism.
7. Workers suffering from a high degree of indebtedness. Such workers absent themselves to escape the wrath of creditors or moneylenders.
(8) Recruitment of unsuitable persons. These workers fail to cope with the work and try to escape from the work.

(9) Inadequate leave facilities, etc.

This study revealed that in the small sector unauthorised absenteism is mainly due to the workers trying to attend to other work. This is clearly observed in case of skilled workers in printing and engineering industries. Next comes inadequacy of leave facilities. Most common reason is recruitment of unsuitable persons. It can be said that one of the reasons for failure of small units is absenteism.

Labour turnover:

"The rate of change in the work force of a concern during a definite period" is termed as Labour turnover. It measures the extent to which old employees leave and the new employees enter into service of a unit in a given period of time. It can be said that a labourer will leave a job for a better one if he is not satisfied with (1) the job (2) the management (3) the wages paid and (4) the incentives and wage supplements provided, etc. Thus labour turnover is the cause and effect of industrial instability.

(23) Personnel enquiry notes.
If the working conditions and personnel relations are agreeable to workers labour turn over will be minimum.

It is said that labour turn over has been found to be relatively higher in the larger concerns than in small ones where the boss can keep in personal touch with his employees. But as per this study the labour turn over is very high in small sector in Rayalaseema. Majority of small industrialists complain that they are finding it difficult to secure certain types of labour. Their common complaint is that workers are not in their jobs even for a short period. As observed, this contention appears to be true.

**Reasons for high labour turn over:**

Many entrepreneurs are responsible for this state of affairs for reasons given below:

(1) Many entrepreneurs are not willing to entertain labourers on permanent basis or on long term contracts.

Presence of casual labour in large proportions is bound to result in heavy labour turn over.

---


(25) Personal interview notes.
Only in a few units we find the practice of offering incentives and wage supplements. Lack of such facilities may create discontentment among workers and motivate them to move to a better place of work.

Many employers are found to be engaging less number of workers than needed. Thus a worker is made to work more than what he, usually is expected to do. This appeared to be a common practice in all units. The worker may feel that he is being exploited. Under these conditions he may prefer to leave the concern.

Wages paid by small units are comparatively less than those paid by large units. Thus workers are attracted by large units.

Impact of labour turn over on small units:

Heavy labour turn over results in
(1) increase in training costs,
(2) production costs increase as a result of increase in wastage in the production process,
(3) loss of production in between the separation of an employee and the replacement by a new one,
(4) the machine capacities are not fully utilised during the hiring intervals and the training period,
(5) the organisation may lose its customers due to its failure in adhering to delivery schedules,
(6) quality of production may suffer.

To avoid all these entrepreneurs should see that labour turnover in their units is maintained at the minimum possible level. This can be achieved by providing better working conditions and maintaining satisfactory personnel relations.

Conclusions:

A critical examination of the survey findings lead us to the following conclusions relating to Personnel Management practices prevalent in Small Sector.

Standard Personnel Management principles are not being used by units in Rayalaseema. This may be one of the several contributing factors for the growing sickness in the sector. A few points will support this observation:

(1) Only 4% units are aware of the significance of 'Job Analysis'
(2) Majority of units are not conducting interview or test at the time of recruiting employees. Even applications are not being
received by majority units from prospective employees.

(3) Skilled labour is not being recruited in the required proportion.

(4) Only 39% units are imparting training to new recruits. The rest of 61% of the units in the sector do not provide any training to new workers.

(5) 55% of the labour force in the sector are casual employees without any job security.

(6) Incentives and wage supplements do not appear to be popular among small units of the region.

(7) According to the opinion expressed by entrepreneurs labour turnover and absenteeism appear to be heavy in the sector.
SUMMARY

Every organisation is a body of human beings. They need a tactful handling which can be termed as effective 'Personnel Management'.

A small unit with limited number of employees may appear to be successful, even if the entrepreneur is not practising the basic principles of 'Personnel Management', due to other reasons. Such units will be more profitable if these principles are practised.

Any personnel programme starts with 'Job Analysis'.

Usually small entrepreneurs limit their recruitment to local talent.

Receipt of application, conducting interview and tests are some of the steps involved in standard recruitment programmes.

Training refers to instructions given to fresh employees in performing a job. Proper training of employees results in higher productivity and lower production costs. Hence in case of manufacturing units training should be made essential.
Promotion of workers to higher posts with higher responsibility and income will improve labour relations in an organisation.

Remuneration to employees should be fixed in relation to the job they perform, conditions under which they work and the qualifications required to perform the respective job.

For maintaining cordial personnel relations every industrial unit should give incentive to workers. It should also offer wage supplements such as sick leave, leave with pay, medical aid and housing facilities, etc.

Personnel Management if introduced in the required form in a small unit will reduce absenteeism and labour turnover. Thus rate of return on the investment can be maximised.
CHAPTER VII

MARKETING MANAGEMENT
CHAPTER VII
MARKETING MANAGEMENT
ROLE OF MARKETING

1. Introduction:

An industrial unit or a business firm consists of workers, machines and materials. Workers bring out products or render services with the help of the machines and materials for the benefit of others and the community. An industrialist may render some service or may bring out finished products to earn profit.

A firm can exist for some time without profits, but never without customers. To meep on the custom or the customers the manufacturers should study the needs of the consumers and users from time to time irrespective of the size of their enterprises. They should try to modify or improve the quality of the products to maintain the demand. Such an act is essential to keep any firm going. If the situation demands a new product has to be introduced into the market to meet the competition from other firms. All this is called as marketing. This way marketing becomes the king pin for the success of a business organisation.

What is a Market?

The concept of market is very important in marketing. The American Marketing
Association defines a market as 'the aggregate demand of the potential buyers (customers) for a product or service'.

Kotler defines a market as, 'an area for potential exchanges'.

Thus, when a group of buyers and sellers are interested in negotiating the terms of purchase or sale of goods or services, such a group of persons can be termed as a market. The negotiations may be face-to-face at a certain place, e.g., a mundi or a village or through any other means of communication viz., correspondence, telephone or through middlemen.

In simple words, market is a convenient meeting place in an area (small or large) which enables price determining forces (demand and supply) to operate freely.

The term market is also used to represent customer demand. It also helps the seller to get feedback information on consumer response towards a product. When a product fails to satisfy customers, the seller will automatically be thrown out of the market for lack of demand. The above discussion is projected in the following diagram:
THE MARKET

BODY OF SELLERS \rightarrow \text{FLOW OF PRODUCTS} \rightarrow \text{MARKET THE CIRCLE OF EXCHANGE} \rightarrow \text{FLOW OF MONEY} \rightarrow \text{BODY OF BUYERS}

\rightarrow \text{FEED BACK INFORMATION SATISFACTION - DISSATISFACTION}

CHART 3

TYPES OF MARKETS:

Markets can be classified into different categories as under:

(1) On the basis of selling AREA, markets can be classified as local, national, and international markets;

(2) On the basis of ARTICLES OF TRADE, product markets are created e.g., cotton market, oil seeds market, bullion market, etc.

(3) On the basis of nature of EXCHANGE transactions—cash market or spot market and forward or future markets are identified;

(4) On the basis of NATURE OF GOODS SOLD, markets are classified as consumer goods and industrial goods markets;
(5) On the basis of MAGNITUDE OF SELLING markets are classified as wholesale or retail markets.

What is marketing?

Marketing may be defined as "the creating and delivery of customer-satisfying services at a profit to the firm"—or "the performance of business activities related to the flow of goods and services from producer to the customer in order to satisfy consumers to achieve the firms' objective."(1)

Kotler defines marketing as, "the human activity directed at satisfying needs and wants through exchanges."

Thus marketing includes:

(1) identification of consumers or customers,
(2) finding out their requirements,
(3) produce goods or provide services to meet their requirements;
(4) informing the customer of the products or services available,
(5) fixing up the prices thereon,
(6) delivering the product or service to the customer at a convenient place and
(7) finally, making a profit through the above process.

---

(1) as quoted in SBI unpublished papers (1980).
The above delineation tells us that marketing is a comprehensive term and is future oriented. Therefore 'marketing' includes the process of servicing a customer and the technique of retaining him by satisfying his needs.

SELLING vs. MARKETING:

Selling is concerned with the plans and ideas of trying to make (induce) the customer exchange what he has (money) for what the seller has (goods or services). Selling concentrates on sales volume whereas marketing is concerned with needs of the buyer. Selling is pre-occupied with the sellers' urgency to convert his product into cash.

Marketing is concerned with customer satisfaction and should be customer oriented. All information relating to consumer wants is collected by conducting 'Market Research'.

Functions of Marketing:

The following chart represents classification of marketing functions:
As shown in the above figure, we can divide the functions of marketing into three categories viz.,

(1) Exchange function
(2) Distribution function and
(3) Supporting functions

(1) Exchange function:

This function consists of (a) Buying and (b) Selling. It involves production planning and development, identification of probable purchasers and demand creation with the help of Market intelligence (3.B).
It also includes purchase of required material for production and assembly of goods to be sold. At this stage, quality and quantity is to be determined with the help of standardising and grading (3.A). Standardising assures quality and makes selling easy. Grading means separating products in accordance with established standards. Each 'grade' will have uniformity in all respects. Grading enhances marketing efficiency.

(2) Distribution:

This is another important function of marketing. This includes transporting the products to the point of sale and storing the products in required quantity to meet the demand as and when arises. This function is to be carried on with risk bearing (3.C). Goods are to be transported or stored under proper insurance cover to minimise losses.

(3) Supporting functions: Finance:

Supporting function is important to keep the concern going. This includes Finance (3.B). Finance plays an important role, specially in respect of concerns producing slow moving products and having large volume of credit sales.
Market intelligence:

Instead of going into the market without proper survey of the demand for existing products, the units can study the market conditions in advance i.e., prior to their starting. This is an important aspect, even for a going concern, to be noted while deciding on new products or diversification of production. Thus, the organisation has to estimate the size of the potential market for its products.

Position of customers:

An intelligent entrepreneur should also study the economic conditions of the customers and areas having their concentration i.e., packets of customers. Based on the competitive conditions and the purchasing power of customers a decision could be taken either to start a unit in the locality or otherwise. This is the first stage of market research.

Second stage begins with the publicity to the product. This also deals with the selection of a suitable channel for distribution, selection of an appropriate mode of transport and conducting of continuous market research to keep up the demand and the follow up steps in market research.
What is marketing management?

Marketing management can be defined as "the process of ascertaining consumer needs, converting them into products or services and then moving the product or service to the final consumer or user to satisfy such needs and wants of specific customers segment or segments with emphasis on profitability ensuring the optimum use of the resources available to the organisation."(2)

In simple words, Marketing Management represents 'Marketing concept in action'. It is the process of management of marketing programmes to achieve the corporate objective (profit making). Irrespective of the size of the unit marketing is an important functional area which determines the future of the concern.

2. SMALL INDUSTRY AND MARKETING:

Generally small units find it difficult to sell their products at remunerative prices. So far as marketing is concerned these units suffer from many ailments. The most important of them are:

(1) Most of the small units have a limited market for their products and as a result face

(2) DAVAR R.S. : Modern Marketing Management (Bombay: Progressive Corporation 1975)p.16.
severe competition. This may be due to a lacuna in the process of identification of customers, markets and the ultimate customers.

(2) Lack of brand names, standardisation and quality improvement.

(3) Research and market investigations are not known to small industrialists.

(4) Improper and unscientific pricing policies reduce the profitability of the concerns.

(5) Absence of advertisement for products keep the consumer in dark and unaware of the availability of the product.

(6) Improper selection of distribution channels.

In the light of all this one can come to the conclusion that many small units become sick as a result of marketing inanities. The existing belief in the industry also corroborates this conclusion. Let us examine this factor in the light of the data available with us.

Extent of Market to Small Units:

Small units have their own financial and production limitations. Hence these units cannot undertake mass production on their own to cover
a wider market area. They try to sell their output in the same locality. Therefore, the market for a majority of small units is mostly local.

Based on the extent of market covered by each unit we can divide small units into the following categories:

1. Units having local market only i.e., units selling their products in and around the village or town where they are located,
2. Units having districtwide market,
3. Units covering the State to sell their products,
4. Units possessing nationwide markets, and
5. Units exporting their production to international markets.

The following table shows the size of market available for products of small units of Rayalaseema.
TABLE 83

SIZE OF MARKET AVAILABLE TO SSI UNITS.

(No. of Units)

<table>
<thead>
<tr>
<th>Industry Code No.</th>
<th>Market size</th>
<th>Within the Town/village</th>
<th>District</th>
<th>State</th>
<th>Inter-State/National</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>20 &amp; 21</td>
<td></td>
<td>21</td>
<td>2</td>
<td>-</td>
<td>3</td>
<td>26</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(80.77)</td>
<td>(7.99)</td>
<td>-</td>
<td>(11.54)</td>
<td>(100)</td>
</tr>
<tr>
<td>22</td>
<td></td>
<td>7</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(77.78)</td>
<td>-</td>
<td>-</td>
<td>(22.22)</td>
<td>(100)</td>
</tr>
<tr>
<td>26</td>
<td></td>
<td>-</td>
<td>7</td>
<td>-</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(57.14)</td>
<td>(57.14)</td>
<td>-</td>
<td>(42.86)</td>
<td>(100)</td>
</tr>
<tr>
<td>28</td>
<td>15</td>
<td>4</td>
<td>2</td>
<td>-</td>
<td>1</td>
<td>22</td>
</tr>
<tr>
<td></td>
<td>(68.19)</td>
<td>(18.9)</td>
<td>(9.08)</td>
<td>(4.54)</td>
<td>(100)</td>
<td></td>
</tr>
<tr>
<td>29</td>
<td>6</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>(85.71)</td>
<td>(14.29)</td>
<td>(14.29)</td>
<td>-</td>
<td>(100)</td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>4</td>
<td>1</td>
<td>1</td>
<td>5</td>
<td>-</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>(40.00)</td>
<td>(10.00)</td>
<td>(10.00)</td>
<td>(50.00)</td>
<td>(100)</td>
<td></td>
</tr>
<tr>
<td>31</td>
<td>3</td>
<td>5</td>
<td>10</td>
<td>7</td>
<td>-</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td>(12.00)</td>
<td>(20.00)</td>
<td>(40.00)</td>
<td>(28.00)</td>
<td>(100)</td>
<td></td>
</tr>
<tr>
<td>32</td>
<td>1</td>
<td>7</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td>(5.88)</td>
<td>(41.18)</td>
<td>(23.53)</td>
<td>(17.65)</td>
<td>(11.76)</td>
<td>(100)</td>
</tr>
<tr>
<td>34</td>
<td>13</td>
<td>7</td>
<td>6</td>
<td>5</td>
<td>3</td>
<td>34</td>
</tr>
<tr>
<td></td>
<td>(38.24)</td>
<td>(20.59)</td>
<td>(17.65)</td>
<td>(14.70)</td>
<td>(8.82)</td>
<td>(100)</td>
</tr>
<tr>
<td>35</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>-</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>(33.33)</td>
<td>-</td>
<td>-</td>
<td>(66.67)</td>
<td>(100)</td>
<td></td>
</tr>
<tr>
<td>36</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>6</td>
<td>-</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>(12.50)</td>
<td>(12.50)</td>
<td>-</td>
<td>(75.00)</td>
<td>(100)</td>
<td></td>
</tr>
<tr>
<td>37</td>
<td>3</td>
<td>2</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>(50.00)</td>
<td>(33.33)</td>
<td>(16.67)</td>
<td>-</td>
<td>(100)</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>75</td>
<td>32</td>
<td>25</td>
<td>37</td>
<td>5</td>
<td>174</td>
</tr>
<tr>
<td></td>
<td>(43.11)</td>
<td>(18.39)</td>
<td>(14.37)</td>
<td>(21.26)</td>
<td>(2.87)</td>
<td>(100)</td>
</tr>
</tbody>
</table>

Note: Figures in brackets indicate percentages.
Source: Data collected.
SIZE OF MARKET OF SMALL SECTOR (PERCENTAGE TO SAMPLE UNITS)

- 14.37% STATE
- 21.26% NATIONWIDE
- 18.39% DISTRICT
- 2.87% INTERNATIONAL
- 43.10% LOCAL
Analysis:

It can be observed from the table that majority (43%) of small units possess only local market for their products. Local market here mean the villages or towns surrounding nearby the actual location of units.

Another feature that emanates from the table is that only a negligible 2.87% of units have export market for their products.

Individually, 80.77% units in Food production (Code Nos. 20 & 21) category, 77.78% units in Beverage industry (Code No. 22) and 85.7% units in leather industry (Code No. 29) have only local markets.

Districtwide market is available for 57.14% of Garment units (Code No. 26), 41.18% of units in Mineral products (Code No. 32) and 33.33% units in transport equipment production (Code No. 37).

Products of 40% units in chemical industry (Code No. 31), 23.53% units in Mineral products (Code No. 32), 17.65% units in Metal industry (Code No. 34) have Statewide market.

Nationwide popularity is noticed for the products of 66.67% units in machine making (Code No. 35), 75% units in Electric and Electronic
industry (Code No.36) and 50% units in Rubber and Plastic industry (Code No.30).

In general as much as 43% units in the area have only local markets. District and Statewide markets are available for the products of 18% and 14% units respectively. 21% units possess nationwide market, whereas only 2.3% units have export market.

A serious handicap:

It can, thus, be observed that only a negligible number of units in the region have a wider market. That means, majority of the small units have only local market for their products.

This is a serious handicap for the progress of small scale units. As these units concentrate only on local markets, there is a possibility of a new unit (small, medium or large) which can produce better products entering the market and push aside the existing products, ultimately the units producing them. Under such situations the small units may have to search in the dark for a new market. At times it may even lead to the closure of the unit for want of markets for its products.

It will always be better therefore for a unit to have a wider market. This will balance the
situation with better marketability of a product in one area even if the market is lost in other areas.

If a unit concentrates only on a local market it means it is a prosperous unit in the locality. On seeing this, some prospective entrepreneurs may be tempted to promote a similar unit in the same area. Thus units producing identical products may come up and try to compete with the established unit. In the process if old unit does not possess an alternative market it may have to face a tough competition from the new units.

It should also be noted that none of the new entrants would develop the systems of measuring the extent of market share to their products. Neither they would be making systematic studies of demand and supply for the products nor their products would be capable of being sold on their own.

Thus concentrating on local markets only or on a limited market may lead a unit to a situation of facing unhealthy competition.
3. **ADVERTISING A TOOL TO IMPROVE SALES OF SMALL UNITS:**

One of the important tools of sales promotion is advertising. Other tools are personal selling and dealers' and consumers' sales promotion.

Selling by advertisement covers a wider market and is impersonal. In the present day competitive market demand creation is as important as meeting the existing demand. Advertisement does this job very effectively. In the words of the late President Roosevelt of the United States, "Advertisement brings to the greatest number of people actual knowledge of useful things, it is essentially a form of education and the progress of civilisation depends on education."(3)

**Objectives of Advertisement:**

In the marketing programme of a small unit advertisement is an indispensable tool. The object of advertising is to sell a product or a service through effective communication. Every advertising programme may serve one or more of the following objectives:

(1) Advertising offers active support to personal selling. It creates a favourable climate for sales.

(3) DESAI v. op. cit.: p.428
(2) Advertising reduces selling cost by making a salesman's job easier and simple.

(3) Advertising creates mass markets. It increases the sales turnover. This facilitates mass production and thus a reduction in the unit cost of production.

(4) Advertising is essential to create a market for a new product and to retain the market, for the existing product.

(5) Advertising enables the marketeer to build up brand preference. It also helps an entrepreneur to build up bright image among the customers to maintain cordial relations with them.

Selection of advertising medium:

The above objectives can be achieved through a series of advertisement campaigns. This should be done with a suitable media of advertisement. The selection of media depends upon the following factors:

(1) Funds available.

(2) The nature of the product and the demand for it.

(3) The type of prospective customers, their location.

(4) The nature of competition and the extent of coverage required.
(5) The cost of a particular medium, the co-operation and promotional aid offered by it and its mass appeal.

DIFFERENT MEDIA OF ADVERTISING:

The following chart shows different media of advertising.

MEDIA OF ADVERTISING

<table>
<thead>
<tr>
<th>MURAL OR OUT-DOOR</th>
<th>PRESS</th>
<th>OTHER FORMS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. POSTERS OR HOARDINGS</td>
<td>1. NEWS PAPERS</td>
<td>1. RADIO AND T.V.</td>
</tr>
<tr>
<td>2. VEHICULAR ADVERTISING</td>
<td>2. MAGAZINES</td>
<td>2. FILM STRIPS</td>
</tr>
<tr>
<td>3. SKY WRITING</td>
<td>3. TRADE JOURNALS</td>
<td>3. SCREEN SLIDES</td>
</tr>
<tr>
<td>4. SANDWICH BOARD MEN</td>
<td></td>
<td>4. WINDOW DISPLAY</td>
</tr>
<tr>
<td>5. ELECTRIC LIGHT SIGNS</td>
<td></td>
<td>5. EXHIBITIONS</td>
</tr>
</tbody>
</table>

DIRECT MAIL ADVERTISING

<table>
<thead>
<tr>
<th>CIRCULAR LETTERS</th>
<th>SALES LETTERS</th>
<th>PRICE LISTS</th>
<th>CATALOGUES</th>
<th>NOVELTIES</th>
<th>OTHER</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>LEAFLETS</td>
<td>DIARY</td>
<td>DIRECT</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>PAMPHLETS</td>
<td>CALENDAR</td>
<td>MAIL</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>BLOTTER</td>
<td></td>
</tr>
</tbody>
</table>

CHART 5
Mural Advertising:

This is also known as out-door advertising. This medium has a long life and a mass appeal. Advertisements of this category keep customers reminding of the product. Eg., Wall writing, display boards in public places like Railway stations etc.

However, outdoor advertising has certain limitations. It is useful only for certain products of common use. Products meant for limited customers cannot make use of this medium. An important drawback is that the effect of this medium cannot be measured. Only units with local demand can use this medium effectively.

Press Advertising:

Newspapers and journals are the best source of market information. They have a general and wider appeal. Information can be conveyed effectively in an appropriate time through this medium. Repeat advertising is also possible through this medium. Periodical change in size and contents is also very easy.

However, advertisement through press has short span of life. Though there is wastage in this medium,
this can be minimised by selecting magazines suited to the needs of the producers. For instance, advertisement for sarees may be confined to such journals normally read by ladies.

**Direct mail:**

This is the most personal medium of advertising which reaches only the desired customers. Wastage in this medium is almost nil. It can provide detailed information about the products or services to the customers for whom they are useful. Thus it can create a lasting impact. Its effect can easily be measured with the help of the number of orders received from the customers to whom the literature was mailed. When compared to other media this may be a bit costly as the advertisement will be lengthy and postage is an additional expenditure to be borne by the producer. Eg., generally this medium is used by book publishers, manufacturers of machineries, drug manufacturers, etc.

**Other Forms: After Sales Service:**

Certain products, particularly electronic and electrical items like Radios, T.Vs., Electrical grinders, pumpsets, etc., require after sales service. This includes educating the customers as to how to use the product till he gets conversant with it and servicing the unit till it gets set. Satisfactory
after sales service will act as an aid to the entrepreneur in sales promotion.

A few other forms viz., Radio, Television, film strips etc., have mass appeal and have a greater impact on customers. Under these, the extent of the area covered varies with the medium selected, so is the cost incurred, etc.

Advertisement in practice:

Majority of Small units in Rayalaseema area are not practising advertisement for the simple reason that it may increase their financial burden. Even those advertising for their products are adopting cheap methods like distribution of calendars and wall writing etc. A limited number of units also practise press publicity. The following table shows the density of small units having advertisement practices in Rayalaseema area.
TABLE 84

ADVERTISEMENT PRACTICES OF SMALL UNITS

(Figures represent percentages to total units responded)

<table>
<thead>
<tr>
<th>Code No.</th>
<th>Advertisement Practised</th>
<th>Advertisement Not Practised</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>20/21</td>
<td>16</td>
<td>84</td>
<td>100</td>
</tr>
<tr>
<td>22</td>
<td>60</td>
<td>40</td>
<td>100</td>
</tr>
<tr>
<td>26</td>
<td>-</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>28</td>
<td>22</td>
<td>78</td>
<td>100</td>
</tr>
<tr>
<td>29</td>
<td>50</td>
<td>50</td>
<td>100</td>
</tr>
<tr>
<td>30</td>
<td>29</td>
<td>71</td>
<td>100</td>
</tr>
<tr>
<td>31</td>
<td>50</td>
<td>50</td>
<td>100</td>
</tr>
<tr>
<td>32</td>
<td>15</td>
<td>85</td>
<td>100</td>
</tr>
<tr>
<td>34</td>
<td>32</td>
<td>68</td>
<td>100</td>
</tr>
<tr>
<td>35</td>
<td>67</td>
<td>33</td>
<td>100</td>
</tr>
<tr>
<td>36</td>
<td>29</td>
<td>71</td>
<td>100</td>
</tr>
<tr>
<td>37</td>
<td>50</td>
<td>50</td>
<td>100</td>
</tr>
<tr>
<td>TOTAL UNITS</td>
<td>30</td>
<td>70</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Data collected.

Analysis:

The practice of advertising is popular among the units of the following industries:
(1) Machinery and machine tools (Code No. 35) (67%)
(2) Beverages (Code No. 22) (60%)
(3) Transport Equipment (Code No. 37) (50%)
(4) Leather Products (Code No. 29) (50%)
(5) Chemicals (Code No. 31) (50%)

In other categories the percentage of units spending on advertisement varies between 15% and 32%.

Majority of units of the following industries are not advertising for their products:

(1) Hosiery and garments (Code No. 26) (100%)
(2) Mineral products (Code No. 32) (85%)
(3) Food Products (Code Nos. 20/21) (84%)
(4) Paper Products (Code No. 28) (78%)
(5) Rubber and Plastics (Code No. 30) (71%)
(6) Electric and Electronic (Code No. 36) (71%)

In the remaining industries the percentage of units not practising advertising varies between 33% and 68%.

It was noticed that only units producing soft drinks (Beverages) are employing costly advertisement campaigns through film strips, screening slides as well as wall writing and press publicity. All the rest are using mostly wall writing or poster display.
During the survey it was observed that small units in Rayalaseema producing pumpsets, multi-metres, etc., are offering after sales service. Enquiries with the customers of these units revealed that the service is not satisfactory. The units in the sector should know the importance of after sales service and improve accordingly.

As a whole, 70% units are not going through advertising to help market their products. Important reasons for this are the following:

(1) Lack of scientific approach in marketing the products.
(2) Lack of surplus funds to meet advertisement expenses.
(3) Availability of a definite market.
(4) Products being marketed in a limited area.
(5) Advertisement being too expensive.

Some opinions:

Majority of the entrepreneurs feel that they cannot afford to spend huge amounts on advertisements as their market is limited. They also feel that cost of publicity may increase the price of the product. These arguments may not be correct always. They only expose the ignorance of the entrepreneurs.
As the small producers are not taking up advertising they are not in a position to educate a large number of customers in a bid to capture a wider market. They should realise that this results in a communication gap. It only shows that the small industrialists are not performing an important function of scientific marketing management. This is why their market is limited.

4. CHANNELS OF DISTRIBUTION:

Distribution of the finished products is the most important activity of the marketing structure. A small manufacturer has to take effective steps to bring his products to the notice of the potential customers in order to create demand for them. Having secured the market for the product the producer should arrange to meet the demand. In other words, the entrepreneur should strive hard to maintain a link between himself and his customer or consumer. This he can do by following a channel or alternative channels of distribution. The phrase channels of distribution is used to refer to the various alternative links which connect the producer with the consumer. The following chart shows different channels of distribution at the option of the producer.
DIRECT CHANNEL

1. PRODUCER → DIRECT SALE → CONSUMER

INDIRECT CHANNELS

1. PRODUCER → WHOLESALE → CONSUMER
   (Indirect sale)

2. PRODUCER → WHOLESALE → CENTRAL MARKET → RETAILER → CONSUMER
   (Indirect sale)

3. PRODUCER → AGENT → WHOLESALE → RETAILER → CONSUMER
   (Indirect sale)

4. PRODUCER → RETAILER → CONSUMER
   (LARGE RETAILER (Indirect Sale))

CHANNELS OF DISTRIBUTION

CHART 6
Common Channels of Distribution:

As can be seen from the above chart, distribution takes place through one of the following channels:

(i) From the manufacturer direct to consumer.
(ii) From the manufacturer to the wholesaler—
to the consumer.
(iii) From the manufacturer—to the wholesaler—
to retailer—to consumer.
(iv) From the manufacturer—to Agent or middleman—
to wholesaler—to retailer—to consumer.
(v) From the manufacturer—to retailer—
to consumer.

Small units generally prefer direct sale, to get maximum profits by eliminating middlemen. Only goods not directly consumable are marketed through indirect channels. Even here the large retailer is the only middleman entertained. A limited number of entrepreneurs with considerable sales volume and wider market use other channels. The structure of the distribution channels adopted by small units is shown in Table 85.
## Table 85

### Channels of Distribution Adopted by Small Units in Rayalaseema

<table>
<thead>
<tr>
<th>Code No.</th>
<th>Manufacturer to consumer</th>
<th>Manufacturer-wholesaler-retailer-consumer</th>
<th>Manufacturer-Agent-Wholesaler-retailer-consumer</th>
<th>Manufacturer-retailer-consumer</th>
<th>Multi-channel</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>20/21</td>
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<td>2</td>
<td>3</td>
<td>23</td>
<td>(100)</td>
</tr>
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<td>(65)</td>
<td>(13)</td>
<td>(9)</td>
<td>(13)</td>
<td>(100)</td>
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<td>4</td>
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<td>(50)</td>
<td>(25)</td>
<td>(100)</td>
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<td>(100)</td>
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<td>(22)</td>
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<tr>
<td>32</td>
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<td>7</td>
<td>5</td>
<td>17</td>
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</tr>
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<td>(42)</td>
<td>(29)</td>
<td>(100)</td>
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<td>2</td>
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<td>(2)</td>
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<td>(5)</td>
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<td>(100)</td>
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<tr>
<td>36</td>
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<td>1</td>
<td>1</td>
<td>-</td>
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</tr>
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<td></td>
<td>(40)</td>
<td>(40)</td>
<td>(10)</td>
<td>(10)</td>
<td>(100)</td>
<td></td>
</tr>
<tr>
<td>37</td>
<td>4</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(80)</td>
<td>(20)</td>
<td>(100)</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Total</td>
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<td>12</td>
<td>34</td>
<td>5</td>
<td>32</td>
<td></td>
</tr>
<tr>
<td>Sector</td>
<td>(53)</td>
<td>(7)</td>
<td>(19)</td>
<td>(3)</td>
<td>(18)</td>
<td>(100)</td>
</tr>
</tbody>
</table>

Note: Figures in paranthesis indicate percentages.
Source: Data collected.
Analysis:

1. **Manufacturer - consumer:**

   This is the shortest channel through which a product can flow to the market. Small units can sell their output direct to consumers this way. Generally this channel is selected by producers with limited market area and to meet the demands of consumers buying in small quantities. It is also popular among ancillary units.

   It can be observed from the table that 53% units prefer to sell their product direct to consumers. This channel is more popular with

   - (1) Garment industry (Code No.26) (88%)
   - (2) Transport Equipment industry (Code No.37) (80%)
   - (3) Machinery & Machine Tools (Code No.35) (75%)
   - (4) Leather products (Code No.29) (67%)
   - (5) Food Products (Code Nos. 20/21) (65%)
   - (6) Rubber & Plastics (Code No.30) (60%)

   In the rest of industries 4% to 48% units are opting out to this channel. An important point is that at least some units in every industry are taking to this channel.

2. **Manufacturer-wholesaler-retailer-consumer:**

   This is a normal channel used by units dealing in products like drugs, beverages, electrical
Units taking to this channel will normally have a wider market. The products will be pressed into the Central market through the wholesaler. In turn, he will despatch them to the retailer for selling to the ultimate consumer. Under this system the wholesaler may finance the producers to meet the demand in a wider market, and may also provide strong promotional support. To help some of the units quite often Government may act as a wholesaler. It can be seen that only 7% of the units in the area are taking to this channel. This channel is used by the units dealing in

1. Electrical & Electronic products (Code No. 36) (40%)
2. Paper products (Code No. 28) (13%)
3. Chemicals (Code No. 31) (13%)
4. Rubber and Plastics (Code No. 30) (10%)
5. Metal Products (Code No. 34) (2%)

3. Manufacturer-Agent-wholesaler-Retailer-Consumer:

In this channel the producer uses the services of an agent of middleman such as distributor or authorised dealer. These agents in turn distribute the goods to wholesalers who sell to retailers and then on to consumers.

19% units in Rayalaseema are using this channel for pushing their products into the market. This channel is used by units dealing in
(1) Beverages (Code No.22)(50%)
(2) Mineral products (Code No.32)(42%)
(3) Metal Products (Code No.34)(24%)
(4) Chemicals (Code No.31)(22%).

4. **Producer-Retailer-Consumer:**

Often large retailers purchase the products from the manufacturer and sell to the ultimate consumer. In this channel the manufacturer has to act as a wholesaler. He is responsible for storage, financing of inventories and transport.

Only 3% of units are adopting this channel. As per the table, the following industries are using this channel.

(1) Electrical & Electronic products (Code No.36)(10%)
(2) Food Products (Code Nos.20/21)(9%)
(3) Metal Products (Code No.34)(5%)

As can be observed, this channel does not seem to be popular among small units in the area.

5. **Manufacturer-Wholesaler-Consumer:**

A wholesaler may bypass the retailer when there are large and institutional buyers. It would be a direct contact between the wholesaler and the buyer. However, units using this channel are very rare.
Multi-channel system:

Some of the producers take to more than one channel to market their products. Generally units having statewise or nationwide market for their products adopt a multi-channel approach.

Our study reveals that excepting units in Electrical and Electronic industry (Code No. 36), small units in the rest of the industries are using this channel only partially. About 10% to 29% of units averaging to 18% are having multi-channel distribution.

From the above discussion, it can be seen that the preferences of small units in channel selection are as under (order of preference based on density of adoption):

1. Direct to consumer (53%)
2. Agent-wholesaler-retailer (19%)
3. Multi-channel (18%)
4. Wholesaler-retailer (7%) and
5. Retailer-consumer (3%)

Reasons for channel selection:

The entrepreneurs adduce their own reasons for their selection. An important point noticed during the study is that the small industrialist always tries to be in direct contact with his
customers to retain his market. Hence majority entrepreneurs prefer to sell their products direct to consumers. The industrialist also feels that by taking the direct channel he can eliminate middlemen and sell the product at a cheaper rate. Majority of entrepreneurs feel that any distribution channel other than the direct one may increase selling costs as their market is limited.

Units with a comparatively wider market have chosen indirect channels to market their product.

5. **SALES PERSONNEL:**

From the above discussion we may conclude that small units prefer 'personal selling'. Personal selling refers to 'the sale of product to a customer or group of customers by personal contact and negotiation'.

The important feature in personal selling is distribution of goods and services through effective salesmanship. A salesman is a person who projects a bold image of a product. The salesman acts as a liaison between the producer and the consumer. Normally the salesman will be an employee of the producer or the producer himself. Thus 'personal selling' requires separate personnel to look after sales. We know marketing a product is directed at profitable sales. A major method of achieving this
objective is through personal selling. Consumer goods are pressed into the market by advertising supported by a network of salesmen to induce the retailer to stock the respective products. However, in sale of industrial products, sales are possible through personal selling with the help of salesmen than by advertising. Thus in case of both industrial goods and consumer products personal selling constitutes an important aspect of the marketing activities. (4) Following are the advantages of personal selling:

(1) Personal contact between the consumer and the producer can be established.

(2) Personal selling can result in actual sale whereas advertising may only create a preference or awareness in customers.

(3) The salesman can help the management in getting information about the customer attitudes, the competition etc. All these advantages go into tune with the requirements of a small entrepreneur and his desire to have contact with purchasers is also fulfilled. So the small industrialist might have safely adopted this method.

The only disadvantage of this method is the high cost of personal selling in the form of salaries to salesmen and the expenditure involved in training them. Let us know what are the practices in small sector. Table 86 shows the availability or otherwise of sales personnel in different units of this sector.
### TABLE 86

**EMPLOYMENT OF PERSONNEL EXCLUSIVELY FOR ATTENDING TO SALES**

<table>
<thead>
<tr>
<th>Code No.</th>
<th>Response</th>
<th>Sales Personnel</th>
<th>Available</th>
<th>Not Available</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20/21</td>
<td>23 (100)</td>
<td>23 (100)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>4 (100)</td>
<td>3 (75)</td>
<td>1 (25)</td>
<td></td>
</tr>
<tr>
<td>26</td>
<td>8 (100)</td>
<td>-</td>
<td>8 (100)</td>
<td></td>
</tr>
<tr>
<td>28</td>
<td>23 (100)</td>
<td>6 (26)</td>
<td>17 (74)</td>
<td></td>
</tr>
<tr>
<td>29</td>
<td>6 (100)</td>
<td>1 (17)</td>
<td>5 (83)</td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>9 (100)</td>
<td>5 (56)</td>
<td>4 (44)</td>
<td></td>
</tr>
<tr>
<td>31</td>
<td>23 (100)</td>
<td>8 (35)</td>
<td>15 (65)</td>
<td></td>
</tr>
<tr>
<td>32</td>
<td>16 (100)</td>
<td>3 (19)</td>
<td>13 (81)</td>
<td></td>
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<td>34</td>
<td>32 (100)</td>
<td>8 (25)</td>
<td>24 (75)</td>
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<td>35</td>
<td>4 (100)</td>
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<td>4 (100)</td>
<td></td>
</tr>
<tr>
<td>36</td>
<td>8 (100)</td>
<td>1 (13)</td>
<td>7 (87)</td>
<td></td>
</tr>
<tr>
<td>37</td>
<td>5 (100)</td>
<td>1 (20)</td>
<td>4 (80)</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>161 (100)</td>
<td>36 (22)</td>
<td>125 (78)</td>
<td></td>
</tr>
</tbody>
</table>

**Note:**
(1) Figures relate to number of responded units.
(2) Figures in brackets indicate percentages.

**Source:** Data collected.
From the above table we can observe that 78% of small units have no exclusive personnel to attend to sales. In majority of these cases sales are effected to by the entrepreneur himself or an employee of the unit engaged to perform a different job. This practice appears to be intense in the following industries:

1. Food Products (Code Nos. 20/21) (100%)
2. Garments (Code No. 26) (100%)
3. Machinery & Machine tools (Code No. 35) (100%)
4. Electrical & Electronics (Code No. 36) (87%)
5. Leather Products (Code No. 29) (83%)
6. Mineral Products (Code No. 32) (81%)
7. Transport equipment (Code No. 37) (80%)

But, majority units in Beverages (Code No. 22) (75%), Rubber and Plastics (Code No. 30) (56%), some units in chemicals (Code No. 31) (35%), Metal products (Code No. 34) (25%), Paper products (Code No. 28) (26%), Transport Equipment (Code No. 37) (20%) appear to have the practice of employing salesmen.

A critical examination of the table reveals that small units do not have personnel to attend to sales function. This work is being done by the entrepreneur himself in majority of the cases. A few reasons for non-employment of personnel for attending to sales are:
(1) The thinking of the entrepreneur that as the owner he can impress upon the customer better than his representative regarding the quality of his product.

(2) Financial incapacity of the entrepreneur to entertain more employees.

(3) The industrialist may also be of the opinion that as his market is limited he can manage sales without the assistance of separate salesman.

It was noticed that the average educational qualification of an entrepreneur is between primary and secondary school levels\(^{(5)}\) and majority of them are new entrants to the industrial field.\(^{(6)}\) This being the position of an industrialist, it may not be possible for him to attend to sales personally and effectively.

6. CREDIT SALES IN SMALL UNITS:

Credit sales means parting with the goods now pending payment. Payment will be made by the receiver of the goods at a later date. The use of credit in business has often been described as representing "man's faith in man".\(^{(7)}\)

\(^{(5)}\) Please refer Chapter IV Table 61.
\(^{(6)}\) Please refer Chapter IV Analysis of Table 61.
\(^{(7)}\) BAUMBACK AND LAWYER: op.cit.: p.418.
Credit may be identified as either consumer credit or trade credit. The former is extended to the ultimate consumer for facilitating sale of consumption goods. Trade credit is that usually extended by a manufacturer to a wholesaler, retailer or to an industrial consumer. Trade credit acts like a financing or lending device whereas consumer credit acts as a tool to attract customers. It may also help the entrepreneur to boost up his sales volume if he maintains cash and credit sales simultaneously. Credit customers can easily be induced to purchase new products pleading that spot payment is not insisted.

Advantages of credit sale:

An entrepreneur selling on credit will have the following advantages:

(1) The entrepreneur can maintain personal relationship with the credit customers. A kind of continuous relationship develops between the customer and the seller.

(2) Credit customers will be regular and continuous purchasers than the cash customers who may have a tendency to purchase on and off and may lay more emphasis on lowest price.

(3) Credit customers are not generally worried of the price factor. They will be more interested in quality and service rather than the price.
(4) A list of credit customers can be maintained and used for mailing details regarding new products. This will act as an aid to sales promotion.

(5) Goodwill and sales image can easily be built up and maintained.

Some disadvantages:

(1) Capital of the entrepreneur gets locked up with credit customers.

(2) The producer or business men may borrow finance to meet certain commitments and has to pay interest. This may be an additional expenditure resulting in an increase in production costs.

(3) Bad debts may arise out of credit sales. This may affect the profits of the concern.

(4) Persons may have to be deputed to effect credit recovery. This may increase other overhead expenses.

Systems in small scale units:

Our study indicates that both these systems are prevalent in Small sector with certain variations depending upon a package of factors.

Table 87 shown below provides details on number of units selling on cash and credit. Likewise Table 88 shows the number of units selling their
products on credit and its proportion to total sales in different units.

TABLE 87

NUMBER OF UNITS HAVING CASH/CREDIT SALES

<table>
<thead>
<tr>
<th>Code No.</th>
<th>Responded Units</th>
<th>No.of Units having only Cash sales</th>
<th>No.of Units having both cash and credit sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>20/21</td>
<td>22 (100)</td>
<td>7 (32)</td>
<td>15 (68)</td>
</tr>
<tr>
<td>22</td>
<td>4 (100)</td>
<td>2 (50)</td>
<td>2 (50)</td>
</tr>
<tr>
<td>26</td>
<td>8 (100)</td>
<td>4 (50)</td>
<td>4 (50)</td>
</tr>
<tr>
<td>28</td>
<td>1 (100)</td>
<td>12 (57)</td>
<td>9* (43)</td>
</tr>
<tr>
<td>29</td>
<td>6 (100)</td>
<td>4 (67)</td>
<td>2 (33)</td>
</tr>
<tr>
<td>30</td>
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<td>10 (100)</td>
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<td>17 (78)</td>
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</tr>
<tr>
<td>36</td>
<td>8 (100)</td>
<td>1 (13)</td>
<td>7* (87)</td>
</tr>
<tr>
<td>37</td>
<td>5 (100)</td>
<td>3 (60)</td>
<td>2 (40)</td>
</tr>
<tr>
<td>Total</td>
<td>158 (100)</td>
<td>67 (42)</td>
<td>91 (58)</td>
</tr>
</tbody>
</table>

*Some units are dealing only in credit sales. Figures in parenthesis indicate percentages to responded Units.

Source: Data collected.
### TABLE 88

**VOLUME OF CREDIT SALES**

<table>
<thead>
<tr>
<th>Code No.</th>
<th>No. of respond-</th>
<th>No. of units in different credit</th>
<th>25% and below</th>
<th>25% to 49%</th>
<th>50% to 74%</th>
<th>75% to 100%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ed units sell-</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
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<td>ing on cash &amp;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>credit</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20/21</td>
<td>15 (100)</td>
<td>2 (13)</td>
<td>4 (27)</td>
<td>3 (20)</td>
<td>6 (40)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>22 (100)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>26 (100)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>28 (100)</td>
<td>9 (33.33)</td>
<td>3 (11.11)</td>
<td>1 (11.11)</td>
<td>4* (44.44)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>29 (100)</td>
<td>2 (50)</td>
<td></td>
<td>1 (50)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>30 (100)</td>
<td>10 (20)</td>
<td>2 (10)</td>
<td>1 (10)</td>
<td>6 (60)</td>
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<td>31 (100)</td>
<td>17 (18)</td>
<td>3 (18)</td>
<td>3 (24)</td>
<td>4 (40)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>32 (100)</td>
<td>7 (29)</td>
<td>2 (43)</td>
<td>3 (14)</td>
<td>1 (14)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>34 (100)</td>
<td>15 (53)</td>
<td>8 (7)</td>
<td>1 (20)</td>
<td>3 (20)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>35 (100)</td>
<td>1 (100)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>36 (100)</td>
<td>7 (14)</td>
<td>1 (14)</td>
<td>1 (14)</td>
<td>5* (72)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>37 (100)</td>
<td>2 (100)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Some units are dealing exclusively in credit sales.*

Figures in parenthesis indicate percentages

Source: Data collected.
Analysis:

It will be clear from Table 87 that 42% of the units are not entertaining credit sales. But 58% are selling their products both on cash and credit. Units selling only on credit can be seen in paper products and Electrical and Electronic industry, their number appear to be negligible.

Majority of the units in the following industries are dealing only in cash:

(1) Leather products (Code No.29)(67%)
(2) Machinery and Machine tools (Code No.35)(67%)
(3) Transport equipment (Code No.37)(60%)
(4) Paper products (Code No.28)(57%)
(5) Mineral Products (Code No.32)(56%)
(6) Metal Products (Code No.34)(55%)

Units in beverages (Code No.22) and garments (Code No.26) seem to enjoy equal proportions in both cash as well as credit sales.

Credit sales appear to be popular among units in the following categories:

(1) Rubber and plastics (Code No.30)(100%)
(2) Electrical & Electronics (Code No.37)(100%)
(3) Chemicals (Code No.31)(78%)
(4) Food Products (Code No.20/21)(68%)

As can be observed from Table 88, the volume of credit sales appear to be more than 75% of total
sales in the following categories (among the units advocating cash and credit sales):

(1) Electrical and Electronics (Code No.36)(72%)
(2) Leather products (Code No.29)(50%)
(3) Beverages (Code No.22)(50%)
(4) Garments (Code No.26)(50%)

Majority of the units (among those selling on cash and credit) in the following industries seem to maintain credit sales below 25% of their total sales:

(1) Transport equipment (Code No.37)(100%)
(2) Machinery and Machine tools (Code No.35)(100%)
(3) Metal products (Code No.34)(53%)
(4) Leather products (Code No.29)(50%)

The overall view is that nearly 59% of the units adopting the system of credit sales are effecting more than 50% of their total sales on credit. In 41% units the sales volume on credit is below 49% of the total sales.

From the above we can conclude that small units appear to be aware of many advantages of credit sales. Therefore, they may be using credit extension as a total to promote sales.

It is learnt on enquiry that many units selling goods on credit are facing certain problems viz.:

(1) Tight financial conditions due to locking up of working capital with debtors;
(2) Difficulties in credit collections;
(3) Heavy losses due to bad debts;
(4) Heavy interest burden;
(5) Increase in sales returns.

The above reasons are not allowing the small entrepreneurs to widen their operations. A common drawback with many small units appears to be lack of adequate operative finance to carry on credit business.

7. QUALITY CONTROL AND SMALL INDUSTRY:

Any production or service unit, large or small, should ensure that only better quality products or services are offered to its customers. This will enable a unit to build up its goodwill and stabilise in the market. Quality control is essential for this.

Quality control is the control of quality during the manufacturing process. It is a mechanism, to ensure the quality standards as per the requirements of sales, engineering and manufacturing departments of an enterprise. Presence of such a mechanism ensures that only 'right' products are made. It also prevents or reduces wastage due to manufacture of defective goods.

Quality determinants:

Competitive market conditions insist on quality and reduction in costs. The term 'Quality' is not an absolute one. It is purely relative and is always considered in relation to the uses of the product,
longevity and product price. Quality is governed by acceptable or tolerable deviations by the producer or consumer. Thus quality of a product is determined by its reliability.

It should be noted that the quality, costs and sale price are closely inter-related. High quality means higher cost of production and therefore higher sale price. A little relaxation in quality may result in lower price.

Advantages of Quality Control:

1. It reduces the cost of inspection of the finished products.

2. Finished products of uniform quality can be supplied to customers.

3. Wastage of time and material due to production of defectives can be minimised. Quality control can thus act as cost reducing device.

4. Supply of standard products enables the producer to maintain cordial relations with his customers. He can thus maintain the market for his unit.

5. The technique of quality control, if implemented, with the help and willing cooperation of production department, brings about better quality goods at lower cost.

Quality control therefore is an essential technique to be adopted by every manufacturer to satisfy his customers.
I.S.I. Certification Marks:

To serve the producers and consumers better Indian Standards Institution operates a 'Certification Marks Scheme'. Under this scheme industrialists manufacturing products confirming to the standards prescribed by the institute can obtain a licence to mark their products with 'ISI' certification mark. This mark serves as a third party guarantee to the consumer.

Similarly, Central Food Technological Research Institute (C.F.T.R.I.) at Mysore and National Chemical Laboratory at Poone also certify the quality of food products. Thus small units can get Government help to manufacture quality goods.

Quality control in Small Units:

Table 89 furnishes details on quality certificates obtained by Small Scale Units.
**TABLE 89**

DETAILS OF SMALL UNITS OBTAINING QUALITY CERTIFICATES.

<table>
<thead>
<tr>
<th>Code No.</th>
<th>Certificates obtained*</th>
<th>Applied, but not yet received</th>
<th>Not applied</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>20/21</td>
<td>-</td>
<td>-</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>22</td>
<td>-</td>
<td>-</td>
<td>50</td>
<td>100</td>
</tr>
<tr>
<td>26</td>
<td>-</td>
<td>-</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>28</td>
<td>-</td>
<td>-</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>29</td>
<td>-</td>
<td>-</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>30</td>
<td>-</td>
<td>-</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>31</td>
<td>13</td>
<td>13</td>
<td>74</td>
<td>100</td>
</tr>
<tr>
<td>32</td>
<td>6</td>
<td>-</td>
<td>94</td>
<td>100</td>
</tr>
<tr>
<td>34</td>
<td>-</td>
<td>-</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>35</td>
<td>-</td>
<td>-</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>36</td>
<td>25</td>
<td>-</td>
<td>75</td>
<td>100</td>
</tr>
<tr>
<td>37</td>
<td>-</td>
<td>-</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>5</strong></td>
<td><strong>2</strong></td>
<td><strong>93</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

*Certificates obtained from ISI, CFTRI etc.

**Note:** Figures indicate Percentage to total responded units.

**Source:** Data collected.

**Analysis:**

The above table reveals that only certain units in Beverages group (Code No. 22)(50%), Electrical and Electronic goods (Code No. 36)(25%), Chemicals (Code No. 31)(13%) and Mineral Products (Code No. 32)(6%) have
obtained standard certifications from Government organisations. Some units in chemical industry are in the process of obtaining certificates.

Of all the units quality control seems to be more in practice among the units producing beverages.

In general 93% units have not obtained quality control certificates.

Thus, it is seen that majority of the products of small units of Rayalaseema do not undergo any quality control test at the production stage. This may be one of the reasons for their poor marketability.

8. **SALES RETURNS AND SMALL UNITS:**

We have noted that small units mostly sell their products to customers direct. It was also found that majority units also sell on credit. As quality control measures are poor in the manufacturing units there are bound to be some defective items ultimately being passed on to the customers. In such cases customers may prefer to return the products to sellers.

If there are sales returns the seller has an option to accept or reject the same. In case the entrepreneurs accept the returns exchanging the defectives for good products, they can earn the customers' goodwill. Besides, if the complaints are many and frequent there is also the danger of the seller losing his market.
It may be so even if the defectives are not exchanged. Accepting the liability and taking steps to avoid such mishaps in future will help the industrialist in the long run.

It appears the sales returns are not accepted in majority of units in small sector. Some units are accepting returns to maintain the market. Table 90 given below shows the position regarding the sales returns and the response of the seller.
### TABLE 90
SALES RETURNS AND SELLERS BEHAVIOUR

<table>
<thead>
<tr>
<th>Code No</th>
<th>Returns accepted</th>
<th>Returns not accepted</th>
<th>Returns not arising</th>
<th>No response</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>22/21</td>
<td>9</td>
<td>51</td>
<td>9</td>
<td>31</td>
<td>100</td>
</tr>
<tr>
<td>22</td>
<td>40</td>
<td>-</td>
<td>-</td>
<td>60</td>
<td>100</td>
</tr>
<tr>
<td>26</td>
<td>56</td>
<td>22</td>
<td>-</td>
<td>22</td>
<td>100</td>
</tr>
<tr>
<td>28</td>
<td>19</td>
<td>47</td>
<td>10</td>
<td>24</td>
<td>100</td>
</tr>
<tr>
<td>29</td>
<td>50</td>
<td>-</td>
<td>-</td>
<td>50</td>
<td>100</td>
</tr>
<tr>
<td>30</td>
<td>22</td>
<td>56</td>
<td>-</td>
<td>22</td>
<td>100</td>
</tr>
<tr>
<td>31</td>
<td>39</td>
<td>24</td>
<td>9</td>
<td>26</td>
<td>100</td>
</tr>
<tr>
<td>32</td>
<td>44</td>
<td>31</td>
<td>6</td>
<td>19</td>
<td>100</td>
</tr>
<tr>
<td>34</td>
<td>32</td>
<td>38</td>
<td>6</td>
<td>24</td>
<td>100</td>
</tr>
<tr>
<td>35</td>
<td>25</td>
<td>50</td>
<td>-</td>
<td>25</td>
<td>100</td>
</tr>
<tr>
<td>36</td>
<td>13</td>
<td>62</td>
<td>-</td>
<td>25</td>
<td>100</td>
</tr>
<tr>
<td>37</td>
<td>20</td>
<td>20</td>
<td>-</td>
<td>60</td>
<td>100</td>
</tr>
<tr>
<td>Average</td>
<td>30</td>
<td>40</td>
<td>5</td>
<td>25</td>
<td>100</td>
</tr>
</tbody>
</table>

Note: Figures indicate percentages to total sample units in the respective industries.

Source: Data collected.
9. PRICING POLICIES - PRACTICES IN SMALL SECTOR:

Formulating pricing policies and fixing the price is one of the most important aspects of management. Prices play an important role in regulation of the marketing activity particularly in small sector. A price policy must act as a motivating force for the accelerated growth of small scale industries. While fixing the price entrepreneurs must (1) know their costs (2) understand the consumer needs and his paying capacities and (3) evaluate the competition.

What is price?

Price reflects the cost of goods sold and some margin of profit. For a manufacturer price will be:
Production costs + Profit.
For a wholesaler or retailer price is
Cost paid + Administrative costs +
selling costs + profits.
(Selling costs include expenses of showrooms, commission paid to salesmen, gifts and prizes to customers and advertisement costs).

Factors influencing price policies:

Pricing policies are generally influenced by many factors. Some of the important factors are:

(8) DESAI V. - op. cit. p. 398
(1) Nature of the product or service

(2) Competition

(3) Business conditions

(4) The sales policy of the firm

(5) Method of distribution, etc.

Let us examine these factors in a little depth.

1. **Nature of the product or service:**

   Sales of essential commodities are not affected by price fluctuations. But the demand for non-essential commodities is influenced by price fluctuations.

2. **Competition:**

   In case of units producing goods for competitive markets prices are influenced by competition to some extent. While fixing competitive prices the seller must take into consideration factors like nature of the competition, special feature of their products if any, type of customers to be served, etc.

3. **Business conditions:**

   Prices charged by manufacturers and retailers fluctuate less readily than the prices charged by the wholesalers.

   Manufacturers' prices fluctuate less frequently because of the general attempt to stabilise or maintain prices on differentiated products.

   A retailer does not respond readily to economic change since at this level of distribution,
(1) customary or convenient prices are common
(2) many of the goods are price lined
(3) it is impractical to re-mark goods frequently
(4) it is not convenient to make changes in fractional amounts and
(5) the wider operating margins are usually adequate to absorb minor variations in the retailers' cost of goods over a short period of time.

4. Market strategy:

Market strategy of a unit may influence the price of its product. If the proprietor is satisfied with a limited market, he can mark his prices high to the customers in the high income bracket. Otherwise, the prices are to be kept low to meet the requirements of the common man. In the second case, the producer can aim at maintaining a wider market.

For instance, in garments industry (Code No.26), the fashion garments produced by certain units are sold at a higher prices as customers of such units are very few in number. In such a situation, the producer can earn a high margin of profits.

On the contrary, units dealing in good products (Code 20/21) like bread, biscuits, etc., price their products with a low margin. These units cover a wider market with more number of customers as the profit margin is low and still earn more profits ultimately.
5. Methods of distribution:

Channel selected for distribution of products also influence pricing.

For eg., In the case of a unit taking to 'personal selling', the entrepreneur can keep the price low as he would not be incurring any expenditure on distribution. If he wants to achieve the economies of mass selling he can increase the volume of production. In such a case though there can be a decrease in production costs, other costs like distribution costs may increase. In such circumstances, the profit margin per unit of sale may not increase though there is an increase in the volume of profit. This discussion becomes more clear with the help of the following example.

Unit 'A' produces 1000 units of product 'X'.

Cost of producing 1000 units is ₹.500 (₹.0.50 per unit). The concern can sell this production for ₹.600 through personal selling. Here the concern gets a profit of ₹.100. The rate of return on investment is 20%. (100/500 x 100).

If the entrepreneur increases his production to 2000 units (maximum capacity) the production costs will be ₹.900 (a saving of ₹.400 per 2000 units or five paise per unit of output i.e., cost of production per unit would be 45 paise). The unit
can sell its output through retailers for ₹1,100, selling expenses being ₹50. The producer earns a profit of ₹150.

But the rate of return is 15.79% \((150/950 \times 100)\). Thus though there is an increase in the volume of production and volume of profits earned, there is a fall in the rate of return on investments. The above data is presented as under.

**PROFIT STATEMENT OF UNIT 'A'**

<table>
<thead>
<tr>
<th>Product &quot;X&quot;</th>
<th>1000 Units</th>
<th>2000 Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of production</td>
<td>₹500</td>
<td>₹900</td>
</tr>
<tr>
<td>Selling expenses</td>
<td>-</td>
<td>₹50</td>
</tr>
<tr>
<td>Total costs</td>
<td>₹500</td>
<td>₹950</td>
</tr>
<tr>
<td>Sales @ ₹0.60 per unit</td>
<td>₹600</td>
<td>-</td>
</tr>
<tr>
<td>@ ₹0.55 per unit</td>
<td>-</td>
<td>₹1100</td>
</tr>
<tr>
<td>Net profit</td>
<td>₹100</td>
<td>₹150</td>
</tr>
<tr>
<td>Rate of return</td>
<td>20%</td>
<td>15.79%</td>
</tr>
</tbody>
</table>

As per the above example selling costs of ₹0-50 are incurred in the second situation. This expenditure was not necessary when the producer adopts personal selling. Thus we can see that the change in distribution channel resulted in an additional expenditure of ₹50. The saving (of
Rs.0.05 per unit of output) in production cost is passed on to the consumer.

Price Revision Practices in Small Sector:

Price variation practices of small sector are very interesting to observe. Tables 91, 92 and 93 indicate data on these practices.

**TABLE 91**

**PRICE REDUCTION PRACTICES**

<table>
<thead>
<tr>
<th>Code No.</th>
<th>Prices reduced due to various reasons</th>
<th>Prices never reduced</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>21</td>
<td>48</td>
<td>52</td>
<td>100</td>
</tr>
<tr>
<td>22</td>
<td>-</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>26</td>
<td>20</td>
<td>80</td>
<td>100</td>
</tr>
<tr>
<td>28</td>
<td>5</td>
<td>95</td>
<td>100</td>
</tr>
<tr>
<td>29</td>
<td>33</td>
<td>67</td>
<td>100</td>
</tr>
<tr>
<td>30</td>
<td>33</td>
<td>67</td>
<td>100</td>
</tr>
<tr>
<td>31</td>
<td>48</td>
<td>52</td>
<td>100</td>
</tr>
<tr>
<td>32</td>
<td>13</td>
<td>87</td>
<td>100</td>
</tr>
<tr>
<td>34</td>
<td>42</td>
<td>58</td>
<td>100</td>
</tr>
<tr>
<td>35</td>
<td>67</td>
<td>33</td>
<td>100</td>
</tr>
<tr>
<td>36</td>
<td>-</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>37</td>
<td>20</td>
<td>80</td>
<td>100</td>
</tr>
<tr>
<td><strong>Among the total units</strong></td>
<td><strong>31</strong></td>
<td><strong>69</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Note: Figures represent percentages to responded units.

Source: Data collected.
### TABLE 92

**REASONS FOR PRICE REDUCTION**

<table>
<thead>
<tr>
<th>Code No.</th>
<th>Reduction in production costs</th>
<th>Competition</th>
<th>Government orders/reliefs</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>21</td>
<td>64</td>
<td>36</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>26</td>
<td>100</td>
<td>-</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>28</td>
<td>100</td>
<td>-</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>29</td>
<td>-</td>
<td>100</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>30</td>
<td>67</td>
<td>33</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>31</td>
<td>27</td>
<td>55</td>
<td>18</td>
<td>100</td>
</tr>
<tr>
<td>32</td>
<td>-</td>
<td>100</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>34</td>
<td>57</td>
<td>43</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>35</td>
<td>-</td>
<td>100</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>37</td>
<td>100</td>
<td>-</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>Sample</td>
<td>48</td>
<td>48</td>
<td>4</td>
<td>100</td>
</tr>
</tbody>
</table>

**Note:** Figures represent percentages to total responded units which are practising price reduction.

**Source:** Data collected.
**TABLE 93**

IMPACT ON SALES VOLUME DUE TO PRICE REDUCTION

<table>
<thead>
<tr>
<th>Code No.</th>
<th>No impact</th>
<th>Sales increased</th>
<th>Sales reduced</th>
<th>Impact not studied</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>21</td>
<td>36</td>
<td>46</td>
<td>-</td>
<td>18</td>
<td>100</td>
</tr>
<tr>
<td>26</td>
<td>100</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>28</td>
<td>100</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>29</td>
<td>50</td>
<td>50</td>
<td>-</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>30</td>
<td>100</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>31</td>
<td>46</td>
<td>27</td>
<td>-</td>
<td>27</td>
<td>100</td>
</tr>
<tr>
<td>32</td>
<td>-</td>
<td>100</td>
<td>-</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>34</td>
<td>56</td>
<td>22</td>
<td>22</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>35</td>
<td>100</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>37</td>
<td>100</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>100</td>
</tr>
</tbody>
</table>

Sample 54  29  6  11  100

Note: Figures represent percentages to total responded units practising price reduction.

Source: Data collected.
Causes of price reduction:

Price reduction may be effected due to many reasons, such as:

(1) Reduction in production costs;
(2) To face the competition and
(3) In accordance to the Government orders, etc.

Among all the units surveyed, 31% of the Units have reduced the sale price of their products due to various reasons. But 69% of the units did not face this problem at any time.

 Majority of the units in Machinery and Machine Tools Industry (Code No.37) (67%) have experienced the need of price reduction. A considerable percentage of units in Food Production (Code Nos.20/21) (48%) Chemicals (Code No.31) (48%) and Metal products (Code No.34) (42%) have also brought down their sale prices due to one reason or the other.

Of the total number of units who have reduced their prices, 48% appear to have effected a reduction to pass on this benefit to the consumer. Another 48% lowered the prices to effectively compete in the markets. 4% units brought down the prices to meet a statutory obligation (Table 92).

The impact of price reduction on sales is shown in Table 93. Our study revealed that there is no
impact of lowering prices on sales in 54% of the units. 29% of the units reported an increase in sales volume. 11% did not feel the impact in both ways. A minimum of 6% entrepreneurs reported a fall in sales volume. (This is only in units dealing in Metal products - CodeNo.34).

All units dealing in mineral products (Code No.32) reported an increase in sales when there was price reduction. All concerns dealing in Garments, Rubber and Plastics, Machine Tools and Transport Equipment appear to have not felt any impact at all though there is price reduction.

Further analysis of the above tables bring out the following:

(1) Prices are not reduced in majority of small units.

(2) The practice of price reduction seems to be popular among units dealing in Machine Tools (Code No.35), Chemicals (Code No.31) and Food products (Code Nos.20/21).

(3) In respect of units dealing in Garments, Paper and Food Products an important reason for price reduction appear to be a fall in production expenses.

(4) In the case of concerns dealing in leather and mineral products, Machine tools and Chemicals, prices are lowered due to competition in the market.
(5) In Chemical units prices are reduced to meet only statutory obligations. All such units are getting 100% supply of raw materials from Government agencies. In these units the volume of output and sale price is also determined by the agencies concerned.

(6) Majority units reported no impact on sales due to price reduction.

The Practice of Sale Price increase:

It is a practice in many industrial units to increase the selling price when:

i) the cost of production increases;

ii) the goodwill of the concern is high and

iii) the product has no competition.

The producer may try to earn more by fixing the sale price at a higher level. Data relating to practices in raising prices are presented in the following tables.
### TABLE 94

**PATTERNS OF SALE PRICE INCREASE.**

<table>
<thead>
<tr>
<th>Code No.</th>
<th>Increase in production costs</th>
<th>Various other reasons to increase price</th>
<th>Situation not faced</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>20/21</td>
<td>61</td>
<td>9</td>
<td>30</td>
<td>100</td>
</tr>
<tr>
<td>22</td>
<td>60</td>
<td>1</td>
<td>40</td>
<td>100</td>
</tr>
<tr>
<td>26</td>
<td>88</td>
<td>-</td>
<td>12</td>
<td>100</td>
</tr>
<tr>
<td>28</td>
<td>77</td>
<td>5</td>
<td>18</td>
<td>100</td>
</tr>
<tr>
<td>29</td>
<td>100</td>
<td>-</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>30</td>
<td>89</td>
<td>-</td>
<td>11</td>
<td>100</td>
</tr>
<tr>
<td>31</td>
<td>79</td>
<td>4*</td>
<td>17</td>
<td>100</td>
</tr>
<tr>
<td>32</td>
<td>59</td>
<td>18*</td>
<td>13</td>
<td>100</td>
</tr>
<tr>
<td>34</td>
<td>91</td>
<td>6</td>
<td>3</td>
<td>100</td>
</tr>
<tr>
<td>35</td>
<td>100</td>
<td>-</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>36</td>
<td>88</td>
<td>-</td>
<td>12</td>
<td>100</td>
</tr>
<tr>
<td>37</td>
<td>80</td>
<td>-</td>
<td>20</td>
<td>100</td>
</tr>
<tr>
<td>Total units</td>
<td>78</td>
<td>6</td>
<td>16</td>
<td>100</td>
</tr>
</tbody>
</table>

Note: Figures indicate percentages to responded units.

*A few units reported that the prices have been raised due to higher demand.

Source: Data collected.
TABLE 95

IMPACT ON SALES VOLUME DUE TO PRICE INCREASE

<table>
<thead>
<tr>
<th>Code No.</th>
<th>No.</th>
<th>Impact Sales Increase</th>
<th>Sales Decreases</th>
<th>Impact not Studied</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>20/21</td>
<td>56</td>
<td>-</td>
<td>22</td>
<td>22</td>
<td>100</td>
</tr>
<tr>
<td>22</td>
<td>75</td>
<td>-</td>
<td>-</td>
<td>25</td>
<td>100</td>
</tr>
<tr>
<td>26</td>
<td>63</td>
<td>-</td>
<td>-</td>
<td>37</td>
<td>100</td>
</tr>
<tr>
<td>28</td>
<td>73</td>
<td>-</td>
<td>5</td>
<td>22</td>
<td>100</td>
</tr>
<tr>
<td>29</td>
<td>33</td>
<td>-</td>
<td>17</td>
<td>50</td>
<td>100</td>
</tr>
<tr>
<td>30</td>
<td>78</td>
<td>-</td>
<td>11</td>
<td>11</td>
<td>100</td>
</tr>
<tr>
<td>31</td>
<td>48</td>
<td>13</td>
<td>22</td>
<td>17</td>
<td>100</td>
</tr>
<tr>
<td>32</td>
<td>44</td>
<td>6</td>
<td>13</td>
<td>37</td>
<td>100</td>
</tr>
<tr>
<td>34</td>
<td>46</td>
<td>-</td>
<td>39</td>
<td>15</td>
<td>100</td>
</tr>
<tr>
<td>35</td>
<td>33</td>
<td>-</td>
<td>67</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>36</td>
<td>56</td>
<td>-</td>
<td>33</td>
<td>11</td>
<td>100</td>
</tr>
<tr>
<td>37</td>
<td>100</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td>Total</td>
<td>56</td>
<td>2</td>
<td>21</td>
<td>21</td>
<td>100</td>
</tr>
</tbody>
</table>

Note: Figures represent percentages to responded sample units practising price increase.

Source: Data collected.

Analysis:

A study of the above two tables reveal the following facts:

(1) The practice of revising the sale price upward seem to be prevalent in as many as 64% of the units in the small sector.
(2) About 6% units vary their prices for reasons other than increase in production costs.

(3) 78% of the small units appear to be increasing their sale prices due to increase in cost of production.

(4) 16% of the entrepreneurs appear to have not felt the need for increasing the sale price of their products.

(5) A few units in Chemical and Mineral Products appear to have revised the price upward when there was an increase in demand.

(6) Despite a revision to a higher price in 56% of the units the price revision appear to have no impact on their sales volume.

(7) In 21% of the units there was a decline in sales volume when the price was increased. This appears so in machinery and machine tools (67% cases) and Metal products (39%). These were closely followed by electrical equipment industry (33%).

(8) Only in 2% of the units there appears an increase in sales volume even when there was an upward revision in the price. This trend is noticed only in two categories viz., Chemicals (13%) and Mineral products (6%).

(9) 21% of the units have not made any attempt to study the impact.
These trends indicate that many small units do not notice any change in the volume of sales even if there is an increase in the sale price of their products.

10. **COMPETITION AND SMALL SECTOR:**

In modern industry competition is a universal phenomenon. Small units are no exception to this. Competition may exist among the units in the same group or between similar units in different sectors.

It is widely believed that small units are facing severe competition from large and medium scale units. The governments both at the Centre as well as in the States have taken certain measures to stem this competition. These measures have helped many small units. In this background the intensity of the competition faced by the small units is studied. The following tables project the real picture on this issue.
## TABLE 96

**SMALL UNITS - INTENSITY OF COMPETITION FROM VARIOUS SECTORS**

<table>
<thead>
<tr>
<th>Code No. (1)</th>
<th>Large Scale Units(2)</th>
<th>Medium Scale Units(3)</th>
<th>Small Scale Units(4)</th>
<th>No Competition (5)</th>
<th>No. of units responded (6)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>I Place</td>
<td>II Place</td>
<td>III Place</td>
<td>I Place</td>
<td>II Place</td>
</tr>
<tr>
<td>20/21</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>22</td>
<td>2</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>26</td>
<td>-</td>
<td>-</td>
<td>5</td>
<td>-</td>
<td>5</td>
</tr>
<tr>
<td>28</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>29</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>30</td>
<td>-</td>
<td>2</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>31</td>
<td>5</td>
<td>-</td>
<td>-</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>32</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>34</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>35</td>
<td>2</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>36</td>
<td>-</td>
<td>2</td>
<td>-</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>37</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>-</td>
</tr>
</tbody>
</table>

**Total***

| 12 | 5 | 5 | 5 | 12 | 4 | 104 | 4 | 5 | 19 | 140 |

*Note: *Horizontal total of Cols.2 to 5 may not tally with Col.6 because some units might have appeared in the table more than once depending on their response.

*Source: Data collected.*
TABLE 97

INTENSITY OF COMPETITION TO SMALL UNITS

<table>
<thead>
<tr>
<th>Placement</th>
<th>Weightage per unit</th>
<th>Large scale</th>
<th>Medium scale</th>
<th>Small scale</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Units</td>
<td>Points</td>
<td>Units</td>
</tr>
<tr>
<td>I</td>
<td>3</td>
<td>12</td>
<td>36</td>
<td>5</td>
</tr>
<tr>
<td>II</td>
<td>2</td>
<td>5</td>
<td>10</td>
<td>12</td>
</tr>
<tr>
<td>III</td>
<td>1</td>
<td>5</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>51</td>
<td></td>
<td>43</td>
</tr>
</tbody>
</table>

RANK

<table>
<thead>
<tr>
<th>Second</th>
<th>Third</th>
<th>First</th>
</tr>
</thead>
</table>

Source: Data collected.

Note: How these tables are prepared?

The respondent industrialists were questioned about their close competitors. Three alternatives viz., small units, large industries and medium scale units were given to the entrepreneurs. They were asked to rank the three sectors in order of their preference.

140 units have responded for these questions. 104 small entrepreneurs felt that small units are their close competitors. 12 respondents identified large scale units as their keen competitors. Only 5 units mentioned medium scale units as competing keenly with them.

5, 12 and 4 entrepreneurs gave second place to large, medium and small sectors respectively.

The three sectors were given third place respectively by 5, 4 and 5 units.

19 respondents mentioned that they have no competitors.

An abstract of the above findings is shown in this table which measures the intensity of competition between the three sectors. For this purpose, each unit is given a weightage of 3 points in the first place, 2 points in the second place and 1 point in the third place.
Analysis:

Analysis of the above tables only reveals that small units are competing among themselves to a greater extent. It also disproves the belief that large and medium units are posing severe competition to small units. On the other hand, there appears to be a severe internal competition between units in small sector. This finding gets support from the following facts:

(1) It is observed that many units producing similar products are concentrated in one region. Eg., (a) Majority (nearly 60%) of the units producing ready made garments in Rayalaseema area, are located in and around a village called Pamidi in Anantapur district.

(b) A number of units producing brass utensils are located in and around Tirupati in Chittoor District.

(c) Many units producing Vermecelli (Food products Code 20/21) are concentrated in Proddatur in Cuddapah District.

Note conté; respectively. This weightage was used only to convert different responses to uniform points. Accordingly all the points in credit to each sector is calculated and final ranking is made. In the process, small sector gained 325 points followed by large scale sector with 51 points. Medium scale units secured 43 points. Therefore, first, second and third ranks were given to small, large and medium sectors respectively.
(2) Not many small units have a wide market for their products. That means many units sell their products only in the local markets.*

(3) It was noticed during the field study that many units in a locality have show rooms or sale points in the same place in a town, village or street. If a customer enters the street he is almost encircled by representatives of these units or by the entrepreneurs themselves with appeals to visit their shops. In this melee the customer is drawn into an atmosphere of confusion. A person with an impressive look or nature succeeds in getting this customer. This practice appears to be unhealthy. Instead of concentrating at a single point and crave for customers, the entrepreneurs can as well spread out over a wider area to market their products.

(4) In the process of competing among themselves the entrepreneurs forget the fact that they should also compete with units in other sectors. As a result, of this unhealthy competition the small units lose their markets to units in large and medium sectors.

11. THE ROLE OF GOVERNMENTS IN MARKETING THE PRODUCTS OF SMALL UNITS:

With a view to assist small scale units in marketing their products the Central Government and its agencies have reserved 241 items to be purchased from them.
Government of India is very particular that the
governmental agencies, both at the Central and States
level, should go all the way to help the small units
in marketing their products. A few schemes have been
evolved for this purpose. These schemes are of two
varieties viz., (1) Central Schemes and (2) Schemes
formulated by State Governments.

CENTRAL SCHEMES

(1) Central Government Stores Purchase Scheme:

This scheme is operated by the Director General
of Supplies and Disposals (D.G.S & D.). The
objective is to encourage the production and utilisation
of industrial products manufactured by small scale
sector by a method of Government purchases. To achieve
this objective all the items of Government purchases
have been divided into the following four groups by
the D.G.S.D. (9)

GROUP I: Items which are of no interest to small scale
units and can be purchased from the large
scale sector.

(9) Industrial Potential Survey and Action Plan (1980-83)
DIC, Kurnool: p. 63.
GROUP II: Items which by their very nature require large scale firms as prime contractors but permit substantial scope to purchase components and parts from small scale units.

GROUP III: Residuary items which both small as well as large scale firms can supply. For items falling under this group tenders are invited from all parties including small scale industries.

GROUP IV: Items which are reserved for exclusive procurement from small scale sector.

Operation of the scheme:
Until recently only units registered with D.G.S. & D. were eligible to participate in the scheme. Registration was to be renewed every five years. A policy decision was taken recently by the Department that small units registered with the National Small Industries Corporation (N.S.I.C) would be treated on par with those units registered with D.G.S. & D. For this purpose the small units can submit their applications to the small industries service institutes in their area. S.I.S.I. will in turn forward these applications to N.S.I.C. for registration.

The revised procedure eliminates the formalities related to the production of various documents, etc.,
while submitting tenders to the D.G.S. & D. The N.S.I.C. has taken up the registration of firms under the new scheme with effect from 1st May 1976.

Only manufactures and sole selling agents will be registered by the N.S.I.C. However, suppliers of certain specified safety or difficult items have to register directly with D.G.S. & D. though they are small units.

(2) Schemes of National Small Industries Corporation;

Under these schemes the Corporation acts as a liaison agency and helps the small units to secure a large share of government business. Following are the salient features of the scheme:

(1) Small units enlisted with the corporation get the D.G.S. & D. tender forms free of cost;

(2) The corporation will issue certificate of competency to small units after due verification of their technical competency. Units possessing competency certificates need not pay any security deposits to Governments' purchasing agencies, including Ministry of Defence.

(3) Provided that the specifications and quality are acceptable, the small units get a price
preference up to 15 per cent over the quotations of large scale units, depending on the merits of each case.

(4) Whenever the small units feel that injustice has been done to them, the corporation takes up their cases with the D.G.S.& D. in order to find out the reason for the non-placement of contracts with these units. The N.S.I.C. also tries to redress their grievances whenever feasible or possible.

(3) Trade Centres:

The Government of India has established trade centres in State capitals to cater to the marketing needs of units in the small sector. These centres provide an integrated marketing system for small industry. They collect and disseminate information relating to all types of small units in the region. They also provide full details of the products manufactured by the units, their capacities and prices. A library-cum-documentation service is also available with these centres.

The setting up of trade centres in various places, (at all State capitals and important cities) considerably filled up the information and communication gap between small entrepreneurs, consumers and sellers. The Trade Centres also conduct exhibition and buyer and sellers conferences to promote contracts between small producers and their customers.
(4) **N.S.I.C. as an Export house:**

On account of their small size and limited resources, small entrepreneurs do not have access to world markets. To encourage the export of the products of small industry, the N.S.I.C. has set up an export department. This department aims at bridging the gap between the small industrialist and the export market. As a first step, the corporation identifies the demand for labour intensive, products abroad. Next it locates (finds out) small units in the country having necessary production facilities to manufacture products in demand in foreign markets. Such units are toned up to produce items acceptable in the world market. Then the corporation books orders from abroad in its own name. These orders are distributed to the eligible units. Thus products are pooled and despatched in the name of the corporation. The N.S.I.C. is able to tap markets in U.S.A. West Germany and Canada for the products of small units. Some of the products exported are stationery goods, steel vessels, rubber and plastic goods and polished granite.

(5) **Export incentives:**

Certain special incentives are offered to small units to encourage exports of their products. The minimum export performance limits for the grant of export house certificate have been lowered for small manufacturers. Some organisations like the Trade
Development Authority, the Indian Institute of Foreign Trade, the Export Promotion Councils and the Directorate General of Commercial Intelligence and Statistics also help small units by supplying world market information to them.

Exporting units are given priority in the grant of import licences. These units also get a "very high" priority for import of or in allotment of capital machinery towards development, rehabilitation or expansion.

Under Essential Commodities Act, special allotment of indigenous raw material is made in a "green form"[11] to exporting units.

Cash assistance is also provided on the export of selected products in order to maintain and promote further exports. This assistance varies from 3% to 25% of the F.O.B. value of the products. The products eligible for assistance are:

(1) Engineering goods
(2) Chemicals and allied products including Rubber and plastics
(3) Paper products

[11] Highest priority is given under "green form" allotment to enable exporting concerns secure indigenous raw material expeditiously.
(4) Sports goods
(5) Processed goods
(6) Iron and Steel, Iron scrap
(7) Cotton seed cake.

Exporters are given concessions in Railway freight for transporting export consignments to port towns. They are also eligible for a rebate of customs and control excise levies on the imported content of export products in accordance with rules in force.

STATE SCHEMES:

Government of Andhra Pradesh: Assistance to small units in marketing their products:

Price preference:

Considering the crucial aspect of marketing for the growth of small sector, the State Government of Andhra Pradesh provides the following facilities under its stores purchase programme.(12)

(1) All the Government and quasi-Governmental organisations including State owned corporations are ordered to buy locally made products if available.

(2) Local products (within the State) get 5% price preference over products from outside the State.

(3) The products of cottage and small industries get 10% price preference.

(4) Products of cooperative societies get 5% price preference over others.

(5) 2% price preference is shown for local products with I.S.I. marks over other products (which do not conform to I.S.I. standards) in addition to the price preference the products are entitled to.

(6) Small units are exempted from payment of earnest money and security deposits while quoting the Government tenders.

Sub-contract Exchange scheme:

Under this scheme the small industries service institute, Hyderabad will try to locate the spare capacities available with the small units in the district. These units will be registered with large and medium units for proper utilisation of such spare capacities. These exchanges will act as a link between the small units and large and medium units. Large consumers within the State as well as in other parts of the country will also be contacted under this scheme.

Training Programmes:

In order to help the existing small industrialists to improve their marketing plans, methods and policies training programmes in marketing are organised by
S.I.S.I. every year. The course is of fifteen days duration. The programmes are held in D.I.Cs of different districts. All small entrepreneurs in the District are eligible to participate in the programme. S.I.S.I. also undertakes consultancy services to solve marketing problems of small units.

Quality Control and Testing facilities:

Recently a branch of I.S.I. was started at Hyderabad to meet the quality testing needs of industrialists in the State. Organisations like (1) Oil Technological Research Institute, Anantapur (2) Mineral and Chemical Testing Laboratory, Cuddapah also undertake quality testing jobs in their respective areas.

The State Government is taking necessary steps to ensure that these facilities are widely made use of by small industrialists all over the State.

With the successful implementation of various schemes, it is hoped that the marketing problems of small units in the State can be solved to a considerable extent.

Conclusion:

Marketing Management represents marketing in actual practice. In general, small units are suffering from many ailments so far as marketing is concerned. Majority of the units have only local
market for their products. This is leading to a situation of facing unhealthy internal competition.

It was observed that in Rayalaseema majority units do not have the facilities for quality control. This may be a contributing factor for the poor marketability of the sectors' output.

The Central and State Governments have formulated a number of schemes to help the small entrepreneur in marketing his products. Successful implementation of these schemes will solve the marketing problems of the sector to a considerable extent.
SUMMARY

Market, Marketing and Marketing Management:
The concept of Market is very important in marketing. Market is an area where the buyer and seller meet to exchange. Markets can be classified into different categories based on (1) the selling area (2) Articles of Trade (3) Nature of exchange (4) Nature of goods sold and (5) Magnitude of selling.

Marketing is "an activity directed at satisfying needs and wants through exchanges". Exchange (buying and selling) and distribution (transporting and storage) are the important functions of marketing.

Marketing Management represents marketing in mutual practice.

Small Industry and Marketing:
(1) Majority small units have only local market for their products.
(2) 70% units in Rayalaseema are not practising advertisement.
(3) Majority of small entrepreneurs prefer to sell their produce direct to consumers.
(4) Small units in general sell for cash only. Only small portion of the sector is taking to credit sales also. But of those advocating credit sales a large number is selling a major portion of their sales on credit only.
(5) Quality control is not popular among small producers.

(6) Sales returns arise in majority of units in the sector. But many of these units are not accepting them.

(7) Price fluctuations do not appear to be having any significant effect on the sales volume of majority of units.

(8) Keen internal competition was noticed in the small sector of Rayalaseema.
CHAPTER VIII

FINANCIAL MANAGEMENT
CHAPTER VIII
FINANCIAL MANAGEMENT

SECTION-A
SOURCE OF FINANCE.

1. WHAT IS FINANCE FUNCTION?

'Finance function' in relation to business or industry is defined as 'simply the task of providing funds needed by the enterprise on terms that are most favourable' to suit its requirements. According to this definition 'finance' function is concerned with the exclusive function of procurement of funds from various sources. This approach assumes that the decisions relating to expenditure (responsible to the demand for capital) are made by somebody else other than the person in charge of finance or the financial manager. Thus according to this definition, the financial manager is left with the sole responsibility of determining how these funds can best be raised. Due to its limited operation, this definition is considered to be too narrow. Finance function is found to be broader than that of funds procurement or supply.

A more appropriate and acceptable definition of finance function is—'procurement of funds and
their effective utilisation in the business'. This includes both securing finance and productive investment of the same. Accordingly, the financial manager acts as a decision maker also. Thus, he will be responsible for selecting alternative uses and sources of funds. The functions performed by the financial manager are together termed as 'Financial Management'.

What is Financial Management:

Financial Management includes decisions regarding:

(1) The specific assets (fixed/working) to be acquired;

(2) The volume of capital invested (fixed/working); and

(3) The various sources (own/borrowings) through which the funds are to be raised—the composition of liabilities.

It also includes functions like:

(a) Supervision of cash receipts and disbursements;

(b) Safeguarding of cash balances;

(c) Custody and safeguarding of securities, insurance policies and other valuable papers;

(d) Recording transactions; and

(e) Reporting.

According to Prof. Solomon, "Financial Management: properly viewed as an integral part of overall

management rather than as a staff speciality concerned with fund raising operations. In this broader view, the central process involved is a rational matching of the advantages of potential uses against the cost of alternative potential sources so as to achieve the broad financial goals which an enterprise sets for itself. In addition to raising funds, financial management is directly concerned with production, marketing and other functions within an enterprise whenever decisions are made about the acquisition or distribution of assets."

Importance of Financial Management:

The importance of financial management varies from industry to industry depending upon the type of the unit, the asset mix, decisions of the management regarding composition of liabilities, etc. Whatever may be the size, financial management will be an integral part of management even if it is not noticeable clearly.

2. IMPORTANCE OF FINANCIAL MANAGEMENT TO SMALL SECTOR:

We know fully well that majority units in the small sector are proprietary concerns or partnership firms. These firms of business/industrial units will have limited sources of finance compared to business/industrial houses in other sectors. Due to their incapacity to raise huge amounts of capital,
small units need careful handling of their limited resources.

At present, small sector suffers from the following limitations:

(1) The small industrialists have, in majority, become sick because they are vulnerable to any crises—financial, commercial or technical. The entrepreneurs being people with limited means, their capacities to manage financial aspects being poor are landing into difficulties.

(2) A small enterprise is mostly a 'one-man show'. The entrepreneurs are not maintaining separate accounts for their personal borrowings. They are found mixing the business borrowings and personal commitments together. Thus they appear to be in doldrums and land the industrial venture in trouble.

(3) Entrepreneurs are not recording their transactions in proper books of accounts. They do not find maintaining proper accounts necessary and convenient. This makes it difficult for the industrialist to gather relevant data for arriving at the financial decisions and for evaluating them.

(4) 'Financial problems of a small enterprise is rarely only financial. Many a time this may be a symptom of other weaknesses, such as poor planning, outmoded technology, ineffective marketing, bad product planning, lack of management
control, etc. This requires comprehensive assessment of financial requirements and financial management.

The entrepreneur can practise financial management without much inconvenience if he,

1. maintains proper books of accounts
2. does not mix up his other commitments with business commitments
3. studies the business problems in their correct perspective without attributing everything to financial aspects.

Merits of Financial Management:

Introduction of financial management results in:

1. Widening the capital base of the unit due to proper utilisation of funds,
2. proper utilisation of different sources of funds,
3. reducing the debt burden of the firm,
4. increasing the earning capacities of the firm,
5. opening of new vistas for the expansion of the unit.

3. NEED FOR FINANCE—CAPITAL—BORROWINGS:

Every entrepreneur needs finance (money) to put his idea of starting an industrial undertaking into practice. This amount is spent on acquisition of assets like land, building, machinery and in

(2) S. M. PARIKH: 'Role of Banks in the Development of Small Business Enterprises'—Banker 22(6)—Aug., 1975 (pp. 5 to 11).
meeting the day to day expenses while running the enterprise.

At the time of estimating the requirements, the entrepreneur should not only take his immediate needs into account, but also the needs of maintaining the venture till it starts earning profits. He must provide for his own drawings or salary to provide for his living. Besides he needs finance for various other purposes. Hence it is better to prepare a budget even before the final decision to start a business is taken. This budget should include cost of all assets required, all expenses, taxes, etc., payable and cost of material, labour etc., for at least a period of six months from the date of commencement.

If an entrepreneur has, the required finance to meet all the above, he can invest the same and start the unit, provided the venture is commercially viable. If he does not have enough funds of his own, he will have to borrow to fill the gap between the requirements and available own funds. The money obtained by the venture from its owner is called capital (3). The funds raised from outside sources are called borrowings.

As per BAUMBACK and LAWYER 'capital' means 'command over purchasing power' possessed by an entrepreneur. Accordingly,

$$\text{Capital} = \text{Total own funds and borrowed funds} + \text{credit accepted.}$$

This equation will be clear if we study the following illustration:

An industrial unit requires ₹.15 lakhs to start with. The owner may put in ₹.9 lakhs in cash or other useable assets. He may purchase a machine or an asset worth ₹.3 lakhs on credit and raise a bank loan for ₹.3 lakhs. Thus, he can make good the initial financial requirements of the venture. It only shows that it is not required to borrow total funds at once. It is enough if a 'line of credit equal to the maximum required' was established.

4. TYPES OF CAPITAL:

It is not enough if an industrialist determines his financial necessities, but he should also know the type of capital needed to meet all the requirements. As is well known there are two types of capital viz., Fixed and Working capital.

(4) BAUMBACK and LAWYER : op.cit: p.196.
Fixed capital is used to acquire fixed assets like land, buildings, machinery etc. Borrowings to meet these requirements are termed as long-term loans. They are generally repaid out of the firm's earnings.

Working capital is used:

(1) to purchase current assets that can be readily converted into cash, such as inventories,
(2) to pay the labourers,
(3) to pay taxes and meet expenses like rent etc.

In other words, working capital is the amount needed to maintain the firm as a going entity. Loans raised for this purpose are normally repaid out of sale proceeds. As this amount would be in circulation, it is also called circulating capital.

According to the type of source from where it is raised, capital can be classified into

(1) own capital or equity and
(2) borrowed capital.

Equity is that amount invested by the entrepreneur from his own funds. This need not be repaid and does

(5) Borrowings or loans are classified as under:

i) Long-term loans-repayable beyond 7 years;
ii) Medium-term loans-repayable over 3 to 5 years;
iii) Short-term loans-repayable on demand.
not require any interest payment. Borrowed capital implies repayment with interest. It is often called 'debt capital' or merely 'debt'.

5. SOURCES OF FINANCE:

The industrialist will look for different sources of finance after estimating his financial requirements. Initially he will tap his own sources i.e., the funds at his disposal. This is called internal resources. When these funds are not enough to meet his requirements he will go in for borrowings otherwise called external sources. The chart given below shows different sources of finance available to a small industrialist.

**SOURCES OF FINANCE**

**AVAILABLE FOR A SMALL INDUSTRIALIST**

```
<table>
<thead>
<tr>
<th>INTERNAL</th>
<th>EXTERNAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>OWN FUNDS</td>
<td>SUBSIDIES/</td>
</tr>
<tr>
<td>PLOUGHING BACK PROFITS</td>
<td>GOVERNMENT</td>
</tr>
<tr>
<td></td>
<td>FINANCIAL</td>
</tr>
<tr>
<td></td>
<td>INSTITUTIONS</td>
</tr>
<tr>
<td></td>
<td>COMMERCIAL</td>
</tr>
<tr>
<td></td>
<td>BANKS</td>
</tr>
<tr>
<td></td>
<td>OTHERS</td>
</tr>
<tr>
<td>1. Private Money</td>
<td>1. Private</td>
</tr>
<tr>
<td>2. Friends</td>
<td>2. Private</td>
</tr>
<tr>
<td>3. Relatives</td>
<td>3. Private</td>
</tr>
<tr>
<td>4. Credit purchase</td>
<td>4. Private</td>
</tr>
<tr>
<td>of Plant</td>
<td>5. Private</td>
</tr>
<tr>
<td>Machinery.</td>
<td>6. Private</td>
</tr>
</tbody>
</table>
```

**CHART 7**
The above chart delineates different sources of finance available to a small industrialist. If all the sources are serialised they appear as—

1. **Internal sources:**
   - (a) Own funds;
   - (b) Ploughing back profits.

2. **External sources (Borrowings).**
   - (a) Subsidies and Government aid;
   - (b) Financial Institutions;
   - (c) Commercial Banks;
   - (d) Other sources like private money lenders, friends and relatives, credit purchase of plant and machinery etc.

Let us discuss each of the above sources in a little detail:

1. **Internal sources:**
   - (a) **Own funds:**

   These funds are otherwise called equity or owned capital. This is the amount at the disposal of the industrialist. In case of partnership firms all the partners or some of the partners contribute to this source. In respect of joint stock companies and co-operatives the amount is collected from the shareholders in the form of share capital. The volume of own capital determines the readiness with which the entrepreneur can face the risk of business. Hence this capital may also be referred as 'risk capital'.
Generally, owned funds are used to acquire fixed assets and to meet the preliminary expenses while establishing the venture.

(b) Ploughing back profits:

This is an important source of finance for an established venture. Profits (after all appropriations) made by the firm, over the years, would be at the disposal of the owner. They may be capitalised whenever there is a need. Thus, ploughing back of profits contribute towards owned funds and thus capital formation. But, this facility would not be available for a new unit.

2. External Sources:

(a) Subsidies and Government financing:

Subsidy is a non-repayable financial grant extended by the Government (Central as well as State) to the entrepreneurs. State and Central Governments provide this grant in the form of part payment to suppliers of the fixed assets like machinery, plant, equipment, etc. The amount of subsidy granted varies depending upon the location of the unit and the scheme under which the benefit is sought.* Generally subsidies form part of fixed capital.

* Please refer to Chapter II. . . . . Pages. 82-1086

for a detailed discussion on this aspect.
At present, subsidies are available to new as well as existing units which are planning for expansion in the small scale sector. Certain units in the large and medium sector are also eligible for subsidies.

The State Government extends financial help to industries under the 'State Aid to Industries Act', Rural Industries Programme, Industrial Development Area Programme etc. These loans are provided at concessional rates of interest ranging between 6 to 10% depending upon the location and type of the proposed industrial unit.

Loans upto ₹.1000/- can be had on personal security. For loans upto ₹.5000/- some acceptable security is required. Under the State Aid to Industries Act loans upto ₹.50,000/- are granted to sole proprietary concerns or partnership firms. Industrial co-operatives are generally granted loans upto ₹. 2 lakhs. The loans are repayable in easy instalments over 10 years.

As has been discussed previously the State Government is also providing loans on the Sales Tax paid by the small units. Excepting the sales tax loans other loans extended by the State Government are not popular among the small units due to their procedural complexity.

(b) Financial Institutions:

The following institutions extend long and medium term financial assistance to small units, in the State,
under different schemes.

(1) **Andhra Pradesh State Financial Corporation (APSFC).**

(2) **Andhra Pradesh Small Scale Industrial Development Corporation (APSSIDC).**

(3) **National Small Industries Corporation (NSIC) etc.**

Andhra Pradesh State Financial Corporation and Andhra Pradesh Small Scale Industrial Development Corporation provide finance to small units for the purchase of land, buildings, plant and machinery and many other items of fixed nature. They also pay the deposits to Andhra Pradesh State Electricity Board on behalf of the small units. National Small Industries Corporation supplies machinery to small units on hire-purchase. Foreign Exchange loans are also arranged by them, for importing machinery and equipment.

(c) **Commercial Banks:**

The Commercial Banks provide long, medium and short term loans to the industrial sector. After the inclusion of the small sector in the priority sector group, the role of Commercial Banks in financing small units has become vital. As a result, they have stepped up short-term lending to small units as long-term financial requirements are met by term lending institutions.
From 1980 State Bank of India is providing seed capital assistance to entrepreneurs who could not get even the margin money required to start the unit.

(d) Other sources:

Small industrialists can also obtain funds from private money lenders, friends and relatives. Normally the interest payable to these parties will be higher than the rates payable to financial institutions or commercial banks. So this source can be used by the industrialist only as a last resort and under emergencies.

Securing plant and machinery on credit can also be considered as a source of finance under this category. This method is adopted by a large number of entrepreneurs as entering into such credit transactions is a routine matter in business world.

Certain institutions like Industrial Development Bank of India, Industrial Finance Corporation of India, Credit Guarantee Corporation of India are also helping the small industrialists in financial matters indirectly.
SECTION B
RESOURCE MOBILISATION

In the preceding discussion we have seen the various sources of finance at the disposal of a small industrialist. Now, let us examine how far he is able to use these sources to meet his financial requirements.

1. **FIXED CAPITAL**:

   Generally, in an industrial undertaking, fixed capital is used for the acquisition of fixed assets like land and buildings, plant and machinery, furniture and fixtures, etc. These assets are meant for producing goods to be sold in the market. Thus fixed capital is the base for earning profits. The assets purchased out of the fixed capital will be useful sufficiently long period of time.

   Table given below show the share of different sources of finance towards the fixed capital requirements of the small sector.
A DISSERTATION
ON THE INDUSTRIAL DEVELOPMENT IN INDIA

by
M.N. Rudrabasavaraj, B.A.(Hons.)
Reg.No.43.

Dissertation submitted to the University of Mysore
in partial fulfilment of my M.A. Degree
Examination in lieu of "ECONOMICS OF GROWTH"
(Third Paper.)

1957
**********
Our first attempt at Planning has been a remarkable success, judged by the performance of the First Five Year Plan. Our Planning is an unique experiment in the sense that India is probably the first among the democratic countries of the world to conceive and implement a Five Year Plan of Socio-economic development. Although the First Five Year Plan did not accord a place of high priority in the Industry, the progress of our industry is quite praiseworthy.

The performance of our industries during the plan period is quite fascinating study indeed. The central objective of this dissertation is to outline the contour of industrial development during the First Five Year Plan Period. It would be quite vainglorious of me if I were to declare that this dissertation has provided an exhaustive and complete study of the Indian Industrial Development. Nevertheless I have attempted to delineate with the aid of available material the progress made by our industries under the First Five Year Plan. I have made liberal use of the Reports of First Five Year Plan, Progress Reports and Second Five Year Plan. This study is rendered bit difficult owing to the absence of a regular and complete "Progress Report" of the First Five Year Plan.
TABLE 98

SOURCES FOR FIXED CAPITAL REQUIREMENTS OF SMALL SECTOR

<table>
<thead>
<tr>
<th>Industry Code No.</th>
<th>Own Funds</th>
<th>Subsidy</th>
<th>Borrowings from Financial Institutions</th>
<th>Commercial Banks</th>
<th>Others</th>
<th>Total</th>
</tr>
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<tbody>
<tr>
<td>20/21</td>
<td>61.93</td>
<td>4.91</td>
<td>15.02</td>
<td>-</td>
<td>18.14</td>
<td>100</td>
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<tr>
<td></td>
<td>(100)</td>
<td>(19)</td>
<td>(19)</td>
<td>(14)</td>
<td>(14)</td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>28.51</td>
<td>20.12</td>
<td>44.67</td>
<td>-</td>
<td>6.20</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>(100)</td>
<td>(50)</td>
<td>(50)</td>
<td>(25)</td>
<td>(25)</td>
<td></td>
</tr>
<tr>
<td>26</td>
<td>96.87</td>
<td>0.69</td>
<td>2.24</td>
<td>-</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>(100)</td>
<td>(29)</td>
<td>(14)</td>
<td>(14)</td>
<td>(14)</td>
<td></td>
</tr>
<tr>
<td>28</td>
<td>61.07</td>
<td>3.57</td>
<td>14.18</td>
<td>1.89</td>
<td>19.29</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>(100)</td>
<td>(24)</td>
<td>(35)</td>
<td>(5)</td>
<td>(5)</td>
<td></td>
</tr>
<tr>
<td>29</td>
<td>58.00</td>
<td>4.56</td>
<td>19.18</td>
<td>-</td>
<td>18.26</td>
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<td>(17)</td>
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<tr>
<td>30</td>
<td>28.26</td>
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<td>-</td>
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<td>100</td>
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<td></td>
<td>(100)</td>
<td>(38)</td>
<td>(50)</td>
<td>(15)</td>
<td>(15)</td>
<td></td>
</tr>
<tr>
<td>31</td>
<td>54.49</td>
<td>9.00</td>
<td>24.69</td>
<td>0.31</td>
<td>12.11</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>(100)</td>
<td>(44)</td>
<td>(28)</td>
<td>(11)</td>
<td>(11)</td>
<td></td>
</tr>
<tr>
<td>32</td>
<td>74.53</td>
<td>0.71</td>
<td>8.09</td>
<td>-</td>
<td>16.67</td>
<td>100</td>
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<tr>
<td></td>
<td>(100)</td>
<td>(7)</td>
<td>(29)</td>
<td>(21)</td>
<td>(21)</td>
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</tr>
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<td>34</td>
<td>46.64</td>
<td>4.06</td>
<td>33.20</td>
<td>0.46</td>
<td>3.44</td>
<td>100</td>
</tr>
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<td></td>
<td>(100)</td>
<td>(44)</td>
<td>(65)</td>
<td>(4)</td>
<td>(4)</td>
<td></td>
</tr>
<tr>
<td>35</td>
<td>69.01</td>
<td>0.99</td>
<td>-</td>
<td>20.00</td>
<td>20.00</td>
<td>100</td>
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<td>(100)</td>
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<td>(33)</td>
<td>(33)</td>
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<tr>
<td>36</td>
<td>51.82</td>
<td>13.37</td>
<td>34.09</td>
<td>-</td>
<td>0.72</td>
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<tr>
<td></td>
<td>(100)</td>
<td>(86)</td>
<td>(71)</td>
<td>(14)</td>
<td>(14)</td>
<td></td>
</tr>
<tr>
<td>37</td>
<td>28.57</td>
<td>9.20</td>
<td>37.14</td>
<td>-</td>
<td>25.09</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>(100)</td>
<td>(67)</td>
<td>(67)</td>
<td>(100)</td>
<td>(100)</td>
<td></td>
</tr>
<tr>
<td>Average</td>
<td>55.18</td>
<td>8.43</td>
<td>24.23</td>
<td>0.22</td>
<td>11.94</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>(100)</td>
<td>(33.59)</td>
<td>(39.93)</td>
<td>(3.05)</td>
<td>(22.14)</td>
<td></td>
</tr>
</tbody>
</table>

Note: (1) Figures indicate percentages to the total fixed outlay in the responded units of respective groups.
(2) Figures in parentheses indicate percentages of units securing finance from the respective sources.
(3) Institutions include Govt. as a source of finance. Separate treatment for Govt. is not given as it is not taking active part in financing industries after the establishment of State Development Banks. SOURCE: Data Collected.
Analysis:

The table shows the share of contribution of different sources of finance to the fixed capital requirements. The following significant factors emerge from a critical evaluation of the table.

The share of own funds in different industries range between a minimum of 28% (in Rubber and Plastic industry - Code No.30) and a maximum of 96.87% (Hosiery and Garments Industry - Code No.26). All the units in the sector seem to have utilised this source.

Contribution of subsidies (both Central and State) is of the order of a minimum of 0.71% (Mineral products - Code No.32) and a maximum of 20% (in Beverages - Code No.22). It is to be noted that only 33.59% units have received subsidies.

Institutional assistance range between 19% (Food Products - Code No.20/21) and 71% (Electrical and Electronic products - Code No.36). Nearly, 40% units in the sector made use of this source to secure their capital requirements.

Banks do not appear to have contributed much towards the fixed capital requirements. Only three industrial groups viz., paper products (Code No.28), Chemicals (Code No.31) and Metal Products (Code No.34) appear to have tapped this source. The share of contributions of this source is less than 2%.
Only 3% units in the sector are benefited through this source.

The contribution of other sources (mainly trade credits and private money lenders) is for between 13% and 39% of units in Chemical industry (Code No.31), Machinery and Machine Tools (Code No.35) are the major users of these sources. 22% of units in the region secured a portion of their fixed capital requirements from these sources.

Thus it is evident from the table that on average a small unit secures 55% of its fixed capital from own funds*, 8% through subsidies, the balance of 37% through borrowings. It, therefore, goes without saying that small units appear to be leaning more on own funds to meet their fixed capital requirements.

From the above, we can see that the small units are not exploring all the sources of finance. Even subsidy which is now available for all small units in the State (newly started as well as existing units) is not being utilised by majority units. Only 33.59% units have received subsidies.

Role of Commercial Banks:

The role of Commercial Banks in supplying the fixed capital needs of small sector is negligible.

*subsidies could also be considered as owned funds as there is no legal obligation on the part of the beneficiary to repay the amount thus received.
Even some of the institutions set up for this purpose are not approached by many entrepreneurs. Some of the reasons for this strange behaviour appear to be the following:

(1) Many entrepreneurs are of the opinion that the borrowings may increase their liabilities and affect the financial liquidity of the unit.

(2) As many entrepreneurs face problems in utilising the existing production capacities to the maximum, they do not like to inject more funds.

(3) Some of the entrepreneurs are not in the know of (a) the availability of facilities like subsidies etc., (b) the existence of financial institutions meant to support exclusively small and medium units.

(4) The process of applying for and obtaining a loan from a financial institution appear to be very complicated. Majority of the entrepreneurs contacted expressed this opinion.

(5) Those approaching the Government for financial help feel that there is inordinate delay in sanctions. This normally discourages others from exploiting this source.

(6) Reception accorded to the entrepreneur by the staff of the institution/bank do not find to be satisfactory in many cases.
(7) The amounts sanctioned appear to be totally inadequate to meet a requirement. In such cases, the applicant will choose a better alternative where he can get adequate amount.

(8) Some units complain that they are unable to fulfil all the conditions stipulated by the institution. For instance, pledging immovable property to secure long-term loans is the major hurdle for the small entrepreneurs. This is so because many industrialists are housing their units in buildings jointly held by them with other family members.

Let us find out whether there is any truth for the causes so adduced.

Application stage:

Regarding the process of getting the loan from an institution, it involves three stages. Securing the application, filling it up and submitting the same to the institution. This stage can be called application stage.

At this stage, the entire work is to be done by the loanee himself. If the entrepreneur is a bit meticulous and acts under the guidance of some persons at the institution he can easily overcome the hurdles, if any at this stage itself.
It is noticed in many cases that the delay is due to the failure on the part of the entrepreneur to fulfil the requirements and stipulated conditions. In certain cases, administrative delay at the institution is also noticed. This could be set right if the authorities are a little more alert and responsive to the requirements of the borrowers.

Processing Stage:

Here the major complaint is the differential treatment meted out by the officials of lending institutions to entrepreneurs. This complaint seems to be very much true. Some of the entrepreneurs secured loans from Andhra Pradesh State Financial Corporation within hours of their submission of loan applications.* While many others complain that they could get the loan only after a lapse of couple of months. On enquiry it is learnt that normally it will take two to three months for an application to be cleared. This clearly indicates that influential persons can get the loans sanctioned in no time while others are to wait for their chance to come. The financial institutions should change this attitude. This will also improve their image in public.

*An entrepreneur at Anantapur, dealing in iron castings informed this to the researcher.
Sanctioning Stage:

It may not be proper to question the amount of loan sanctioned by the institutions even though there is a gap between the amount requisitioned and the sanctions. The sanctions are based on the reports of the technical personnel in the organisation. It is likely in many cases that the entrepreneurs might have over stated their requirements. The only point to be noted by the institution is to have a clear idea of changing situation and escalating costs while clearing loan applications.

The Government and institutions must give more publicity to their programmes and schemes meant for the development of small sector. This will go a long way in improving the financial position of the sector.

As regards the difficulties in pledging immovable property, the loanees should not hesitate to pledge the title deeds. Mere parting with the title deeds will not affect their right to enjoy the property. Whenever necessary, the beneficiary must pledge the property willingly. This procedure also compels the industrialist to repay the loans in time. If no security is given to the lender, the borrower will be a free bird and may try to evade repayment.
The institution should show some concession in genuine cases and may relax the condition of pledging property other than those purchased from out of the loan amounts.

The small entrepreneur must change his attitude of depending more on own funds for running his unit. He should make proper use of all possible sources of finance. At the same time the institutions should also develop a liberal attitude to extend all the help to the small sector in accordance with the Government policies and programmes. This will enable the sector to perform better.

2. WORKING CAPITAL:

In simple terms, working capital refers to the investment in current assets. These are the assets which can be converted into cash within an accounting year. These include bills, receivables, stock of material and finished goods, debtors etc.

Importance of working capital need not be over emphasised as no firm can run without it. Even service units require this capital to maintain their activity. But its volume differs from firm to firm.

Operating cycle:

The quantum of working capital depends upon the time required to complete a sequence of events
called operating cycle. The operating cycle in the case of a manufacturing unit consists of:

1. Conversion of cash into raw materials,
2. Conversion of raw materials into work-in progress,
3. Conversion of work-in progress into finished goods,
4. Conversion of finished goods into debtors or bills receivable through sales, and
5. Conversion of debtors and bills into cash.

This cycle will repeat again and again. A figurative representation of the cycle is given below.

At this stage, let us study the components of working capital in a small unit.

---

An industrialist can procure working capital from different sources like own funds, financial institutions, commercial banks and others. Of all, Commercial Banks appear to be an important source of supply of working capital requirements of small units.

Advances by Commercial Banks for working capital can be divided into the following categories. (7)

i) Inventory finance by way of cash credit agreements against hypothecation/pledge of stocks.

ii) Overdrafts against fixed assets.

iii) Clean overdrafts.

iv) Financing book-debts by way of granting, purchasing/discounting of bills and cheques, overdrafts against hypothecation of book-debts etc.

v) Opening letters of credit, issuing guarantee under Assistance for Industrial Development (AID) schemes, Trust Receipt Facilities etc.

vi) Export Finance by way of packing credit (Preshipment and Postshipment finance).

The following table shows the sources of finances available to small units to meet their working capital requirements.

(7) S.M. PARikh: op.cit. p.183.
### TABLE 99

**SOURCES OF WORKING CAPITAL OF A SMALL UNIT**

<table>
<thead>
<tr>
<th>Industry Code No.</th>
<th>Own Funds</th>
<th>Financial Institutions</th>
<th>Commercial Banks</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
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<td>1.74</td>
<td>100</td>
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<td>(61.9)</td>
<td>(4.76)</td>
<td>(47.6)</td>
<td>(4.76)</td>
<td></td>
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<tr>
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<td>6.25</td>
<td>-</td>
<td>93.75</td>
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<td></td>
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<td></td>
<td>(75.00)</td>
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<tr>
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<td>100</td>
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<td>(75.00)</td>
<td>(25.00)</td>
<td>(75.00)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>28</td>
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<td>-</td>
<td>60.31</td>
<td>6.03</td>
<td>100</td>
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<tr>
<td></td>
<td>(44.44)</td>
<td></td>
<td>(55.56)</td>
<td>(16.67)</td>
<td></td>
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<td>29</td>
<td>28.35</td>
<td>3.09</td>
<td>58.25</td>
<td>10.31</td>
<td>100</td>
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<tr>
<td></td>
<td>(50.00)</td>
<td>(16.67)</td>
<td>(50.00)</td>
<td>(17.67)</td>
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<td>(62.5)</td>
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<td></td>
</tr>
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<td>(73.68)</td>
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</tr>
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<td>-</td>
<td>58.34</td>
<td>11.18</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>(69.57)</td>
<td></td>
<td>(60.87)</td>
<td>(17.39)</td>
<td></td>
</tr>
<tr>
<td>35</td>
<td>-</td>
<td>-</td>
<td>83.05</td>
<td>16.95</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(100.00)</td>
<td>(33.33)</td>
<td></td>
</tr>
<tr>
<td>36</td>
<td>4.70</td>
<td>-</td>
<td>95.30</td>
<td>-</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>(57.14)</td>
<td></td>
<td>(85.71)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>37</td>
<td>2.56</td>
<td>-</td>
<td>82.05</td>
<td>15.39</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>(33.33)</td>
<td></td>
<td>(33.33)</td>
<td>(33.33)</td>
<td></td>
</tr>
</tbody>
</table>

**Average**

<table>
<thead>
<tr>
<th>Industry Code No.</th>
<th>Own Funds</th>
<th>Financial Institutions</th>
<th>Commercial Banks</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>19.77</td>
<td>0.86</td>
<td>73.35</td>
<td>6.02</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>(52.34)</td>
<td>(2.34)</td>
<td>(64.07)</td>
<td>(10.16)</td>
<td></td>
</tr>
</tbody>
</table>

**Note:**
1. Figures indicate percentages to total working capital employed in responded units in respective groups.
2. Figures in parentheses indicate percentage of number of units utilising respective sources.

**SOURCE:** Data collected.
**Analysis:**

The first look at the table leads us to the conclusion that a small unit depends more upon borrowed funds to meet its working capital needs.

The share of own funds appears to be between a minimum of 3% (Chemical units - Code No. 31) and a maximum of 47% (Food products - code No. 20/21). Though the dependence on own funds seem to be less, more number of firms (52%) are making use of this source.

The role of financial institutions and Government in supplying working capital finance appear to be insignificant. Perhaps these institutions might have delegated this activity to commercial banks retaining the task of supply of fixed capital for themselves. Accordingly 73.65% of the financial necessities for this purpose are provided by Commercial Banks. Thus the borrowings from banks for working capital range between 33%. (Transport equipment - Code No. 37) and 100% (Machinery and Machine Tools - Code No. 35). It can be seen that in certain cases cent per cent working capital has come from banks. As many as 64% of small units in the sector are utilising the facilities extended by various banks.

The share of other sources like short term trade credits, borrowings from individuals etc., is only 6% of the total requirements. Only 10% of the
total units are using these sources. Units in
Machinery and Machine Tools and Transport Equip­
ment are utilising these sources to a considerable extent.

From the above analysis we can conclude that for a major part of their working capital requirements small units are depending on Commercial Banks. This also leads us to the fact that small firms are more after short-term loans (as only short term loans are sanctioned for working capital requirements) than long term loans.

It is verified from many industrialists that (1) it is difficult to get the long-term loans (2) the debt burden of long-term loans will be felt for a long period. All these reasons appear to be the outcome of psychological fears, having practically no base.

The general tendency of small industrialists in Rayalaseema appear to be that they wish to use owned funds rather than borrowed. All the entrepre­neurs have tapped own sources to raise fixed capital. Majority used this source for their working capital requirements as well. Thus it can be seen that a small entrepreneur depends more on own funds. This dependence is particularly high in respect of
3. DEPLOYMENT OF FIXED CAPITAL:

Utilisation of fixed capital, for the purpose of acquiring fixed assets had been divided into four categories viz.,

(1) Buildings: Consisting of premises, factory sheds and any other constructed portions like wells, gas chambers, chimneys etc.

In case of leasehold property the initial payment is treated as investment for this purpose. The 'Pagadi' or advance paid (non-refundable) to secure a premises or building on rent is considered to be investment on buildings.

(2) Machinery: Investment on plant and machinery, whether the plant and machinery are new or second hand, price paid by the present owner is taken into account (as is the practice in financial institutions and Commercial Banks).

(3) Fixtures and fittings: furniture, typewriters, calculators, weighing machines, fans and other electrical installations such as air-conditioners are included under this category.

(4) Other assets include motor vehicles, patents and designs etc.

As mentioned earlier, fixed capital is used to acquire the fixed assets unless otherwise specified.

(8) This observation coincides with the observations made by the NCAER. Please refer: Study of Small Industrial Units, NCAER, 1972 - p.28
Let us examine the type of deployment of fixed capital for acquiring these assets by the small entrepreneurs. The following table shows some details.

**TABLE 100**

**DEPLOYMENT OF FIXED CAPITAL**

<table>
<thead>
<tr>
<th>Industry Code No.</th>
<th>Buildings</th>
<th>Machinery</th>
<th>Furniture &amp; Fittings</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>20/21</td>
<td>56.63</td>
<td>36.56</td>
<td>5.53</td>
<td>1.28</td>
<td>100</td>
</tr>
<tr>
<td>22</td>
<td>22.75</td>
<td>66.17</td>
<td>5.66</td>
<td>5.42</td>
<td>100</td>
</tr>
<tr>
<td>26</td>
<td>36.91</td>
<td>53.02</td>
<td>7.83</td>
<td>2.24</td>
<td>100</td>
</tr>
<tr>
<td>28</td>
<td>16.70</td>
<td>73.75</td>
<td>6.18</td>
<td>3.37</td>
<td>100</td>
</tr>
<tr>
<td>29</td>
<td>9.13</td>
<td>82.47</td>
<td>5.94</td>
<td>2.46</td>
<td>100</td>
</tr>
<tr>
<td>30</td>
<td>17.39</td>
<td>78.64</td>
<td>3.08</td>
<td>0.89</td>
<td>100</td>
</tr>
<tr>
<td>31</td>
<td>32.48</td>
<td>64.76</td>
<td>0.96</td>
<td>1.80</td>
<td>100</td>
</tr>
<tr>
<td>32</td>
<td><strong>56.59</strong></td>
<td>42.07</td>
<td>6.07</td>
<td>1.27</td>
<td>100</td>
</tr>
<tr>
<td>34</td>
<td>31.26</td>
<td>60.90</td>
<td>5.30</td>
<td>2.54</td>
<td>100</td>
</tr>
<tr>
<td>35</td>
<td>36.62</td>
<td>34.51</td>
<td><strong>28.45</strong></td>
<td>0.42</td>
<td>100</td>
</tr>
<tr>
<td>36</td>
<td>22.47</td>
<td>74.41</td>
<td>2.31</td>
<td>0.81</td>
<td>100</td>
</tr>
<tr>
<td>37</td>
<td>25.89</td>
<td>69.64</td>
<td>4.47</td>
<td>-</td>
<td>100</td>
</tr>
</tbody>
</table>

**Average** | **29.90** | **61.41** | **6.82** | **1.87** | **100**

**Note:** Figures represent percentages to the total fixed outlay in the responded units.

**Source:** Data collected.

**Analysis:**

Investment on buildings ranges between 9% in leather products (Code No. 29) and 56.63% Food Products (Code No. 20/21). The investment is more
DEPLOYMENT OF FIXED CAPITAL IN SMALL SECTOR

- Building 29.90%
- Furniture and fitting 6.82%
- Others 1.87%
- Machinery 61.41%
than 50% of the total fixed capital outlay in Mineral products also (Code No.32).

The investment on plant and machinery is maximum in many units. The range of investment is between 34.5% - Machinery and Machine tools (Code No.35) and 82.5% - Leather products (Code No.29). Excepting in respect of units in Machinery and Machine tools, Mineral products and Food Products in all other categories the investment on machinery is more than 50% of the total fixed capital outlay.

Maximum investment in furniture and fixtures is observed only in Machinery and Machine tools units (Code No.35) (28.45%). In all other cases the share of furniture is less than 10% of the total fixed investment outlay.

Investment in other assets is around 5% of the total in all the units.

In brief, an average unit spends 29.90% of its fixed investments on buildings, 61.41% on machinery, 6.82% on furniture and fixtures and 1.87% on other assets.

This analysis reveals that nearly 30% of fixed capital is diverted to secure a place for working while 70% is used to acquire plant and
machinery and other assets. As a contrast to an average unit in the State spends 27% of its fixed capital outlay on buildings and land while the rest of 73% is used for machinery and other purposes.\(^{(9)}\)

4. **TURNOVER OF WORKING CAPITAL:**

Investment in working capital could be utilised to the maximum only when the number of completed operating cycles or turnover is maximum. The more the number of cycles, more will be the firm's earning capacity. Of course, this depends upon:

(1) the production period or time required for processing material into finished product,
(2) the capacity utilisation of the unit,
(3) the marketability of the product,
(4) volume of credit sales and period required for collection of debts, etc.

It is noticed that in many units of Rayalaseema, on an average the working capital completes only one operating cycle,\(^{(10)}\) over a period of one year.

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\(^{(9)}\)The percentages for this purpose are calculated on the basis of the details given in "Andhra Pradesh Industrial Profiles" for various small units in different regions in the State.

\(^{(10)}\)The total amount spent on material purchase + labour cost + utilities over one year is taken as the value of the total operating cycles in a year. The working capital invested is considered as the value of one cycle. \(\therefore\) No. of cycles = \(\frac{\text{Total value of operating cycles}}{\text{Value of one operating cycle}}\)
This is a poor performance. If the unit works for its full capacities of three shifts a day, working capital must at least complete three cycles. Reasons for this poor turnover are listed as under:

(1) Non-availability of raw material,
(2) Shortage of labour
(3) Shortage of working capital
(4) Shortage of power or power interruptions
(5) Managerial inability
(6) Non-availability of market for the product
(7) Machine breakdown, and so on.

It has been established by a discussion in previous pages that the above are the important reasons for a low turnover of working capital in the small sector. This discussion again proves that the small entrepreneurs are not utilising the working capital to their maximum benefit.

5. Share of fixed and Working Capital in the total Investment of small sector:

So far, we have discussed the contribution of different sources of finance for fixed and working capital of a small unit. Now let us examine the share of fixed and working capital in the productive investment of a unit. This is useful to gauge the fixed or working capital intensity of a unit. The following
The table shows the respective shares of fixed and working capital in the total investment of a unit.

### TABLE 101

PROPORTION OF FIXED AND WORKING CAPITAL IN TOTAL INVESTMENT

(Percentages to total investment in responded units)

<table>
<thead>
<tr>
<th>Industry Code No.</th>
<th>Share of Fixed Capital</th>
<th>Share of Working Capital</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>20/21</td>
<td>59.40</td>
<td>40.60</td>
<td>100</td>
</tr>
<tr>
<td>22</td>
<td>83.44</td>
<td>16.56</td>
<td>100</td>
</tr>
<tr>
<td>26</td>
<td>66.03</td>
<td>33.97</td>
<td>100</td>
</tr>
<tr>
<td>28</td>
<td>71.87</td>
<td>28.13</td>
<td>100</td>
</tr>
<tr>
<td>29</td>
<td>36.08</td>
<td>63.92</td>
<td>100</td>
</tr>
<tr>
<td>30</td>
<td>53.20</td>
<td>46.80</td>
<td>100</td>
</tr>
<tr>
<td>31</td>
<td>51.13</td>
<td>48.87</td>
<td>100</td>
</tr>
<tr>
<td>32</td>
<td>67.62</td>
<td>32.38</td>
<td>100</td>
</tr>
<tr>
<td>34</td>
<td>37.10</td>
<td>62.90</td>
<td>100</td>
</tr>
<tr>
<td>35</td>
<td>70.65</td>
<td>29.35</td>
<td>100</td>
</tr>
<tr>
<td>36</td>
<td>38.53</td>
<td>61.47</td>
<td>100</td>
</tr>
<tr>
<td>37</td>
<td>74.17</td>
<td>25.83</td>
<td>100</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>51.79</strong></td>
<td><strong>48.21</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: Data collected.

Analysis:

The table shows the respective shares of fixed and working capital in the total investment of a unit.
It can be observed that the fixed capital investment is more in Beverages (Code No. 22) i.e., 83.44%. It is minimum in leather goods (Code No. 29) at 36.08%. It is nearly 74% in Transport equipment (Code No. 37) followed by paper products (Code No. 28) at 72% and Machinery and Machine tools (Code No. 35) at 70.65%. In respect of Garment units (Code No. 26) and Mineral products (Code No. 32) nearly 66% and 68% of total investment is in fixed assets respectively. Small units in food products (Code Nos. 20/21), Rubber (Code No. 30) and Chemicals (Code No. 31) invest more than 50% of their total capital in fixed assets. In other units the investment is around 35%.

The table evidently shows that the share of working capital is more in Leather products units (Code No. 29) at 63.92%, Metal products (Code No. 34) at 62.9% and Electrical and Electronic products (Code No. 36) at 61.47%. In other industries this share ranges between 16% to 49%.

On an average in a small unit 51.79% of the total investment is in the form of fixed assets and 48.21% as working assets. Thus, we can conclude that the total investment in the average small unit is almost equally shared by the fixed and working assets. One can even say that small units, in general, though appear to be less capital intensive are not
so in reality. We should remember that the working capital in a small unit hardly completes one operating cycle. If the unit works to the full capacity the position will be otherwise. Assuming that (1) the present fixed investment in the average small unit suffices for its working for three shifts and (2) the present working assets are enough only to meet 1/3 of the units capacity (single shift)\(^{(11)}\), then the proportion between fixed investment and working investments at full capacities would be as shown in the following chart. In such eventuality there will be no need for further investment in fixed assets. But the working capital is to be increased by two more doses.

---

\(^{(11)}\) It has already been established in Chapter VII that the material supply to small sector is only 1/3 of its requirements.
The chart showing fixed and working investment proportions is as follows:

<table>
<thead>
<tr>
<th></th>
<th>One Shift</th>
<th>Two Shifts</th>
<th>Three Shifts</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rs.</td>
<td>% to Total</td>
<td>Rs.</td>
</tr>
<tr>
<td>Fixed Capital</td>
<td>51.79</td>
<td>51.79</td>
<td>51.79</td>
</tr>
<tr>
<td>Working Capital</td>
<td>48.21</td>
<td>48.21</td>
<td>96.42</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
<td>148.21</td>
</tr>
</tbody>
</table>

In the above example, when the unit works for three shifts, the share of fixed capital is only 26.37%, whereas the share of working capital is as high as 73.63%. This shows that the high percentage share of fixed capital in total investment is only due to the existence of unused capacities.

The argument is supported by the following observation made during the field study. In respect of leather goods, metal products, and electrical and electronics, it was observed that majority of the units are working to full capacities. Hence, in these units, the ratio between fixed and working capital is around 15:85.

We can, therefore, conclude that the units working to full capacity require more working capital. This situation also results in low fixed capital.
6. DEBT vs. EQUITY:

Dependence on own funds: In the preceding discussions we observe that an entrepreneur depends more on own funds rather than borrowings. It was also observed that the industrialist is not psychologically prepared to borrow a loan for the simple reason that he believes that he may have to pay more than what he is earning on those borrowings. This belief is not correct. If proper plans/estimates are prepared he can always sail safe. This can further be explained with the following example:

'A' is doing business with ₹10,000/- invested on his own. He earns a profit of ₹2,000/- per annum. The rate of return on investment amounts to 20%. It is observed that there is scope to expand his business which requires an additional investment of ₹5,000/-. On expanding the activities, the entrepreneur can earn an additional income of ₹1,000/-

Assuming that the entrepreneur opts to take a loan of ₹5,000/- at an interest rate of 15%, let us calculate his earning rate. At normal circumstances and at normal capacities the computations will be as under:
<table>
<thead>
<tr>
<th></th>
<th>I Situation (Own funds only)</th>
<th>II Situation (Own funds + borrowings)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Own Capital</td>
<td>Rs. 10,000</td>
<td>Rs. 10,000</td>
</tr>
<tr>
<td>Borrowings</td>
<td></td>
<td>Rs. 5,000</td>
</tr>
<tr>
<td>Total investment</td>
<td>Rs. 10,000</td>
<td>Rs. 15,000</td>
</tr>
<tr>
<td>Gross income</td>
<td>Rs. 2,000</td>
<td>Rs. 3,000</td>
</tr>
<tr>
<td>Less interest on</td>
<td></td>
<td>Rs. 750</td>
</tr>
<tr>
<td>borrowings</td>
<td>Rs. 2,000</td>
<td>Rs. 2,250</td>
</tr>
<tr>
<td>Rate of return on</td>
<td>20%</td>
<td>22.5%</td>
</tr>
<tr>
<td>own funds</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In the above example the entrepreneur is able to earn an additional income of 2.5% on own funds when the operations are expanded with borrowed funds. This shows that borrowings can help the entrepreneur improve his activity and increase his earnings.

Borrowings can help the industrialist to earn more returns even on his own investments. How much should be borrowed? At what rate? For which period? All will depend upon the conditions prevailing under a given situation. It can be seen, therefore, that borrowings to a limited extent will do no harm to the liquidity position of the unit. In the real terms, it will help the entrepreneur to earn more in the long run.
Determination of fixed capital requirements:

It was also observed during the field study that even those going for borrowings are trying to reduce their debt burden to the lowest level by adopting certain unhealthy practices like, going in for cheaper machinery and equipment and other assets which require low fixed investment. This will not help any one much less the industrialist.

The entrepreneur should determine his fixed capital requirements based on the comparative cash out flow and inflow ratios. Cash out flow means the volume of expenditure to be incurred in purchase and maintenance of an asset or service. Cash inflow is the funds generated or saved by the concerned asset during a period. Even if the outflow is more in a particular case, initially, if the inflow is considerably higher at later dates the entrepreneur should not mind investing more at the initial stages. At this stage, he may have to adopt capital budgeting technique for decision making and in preferring one asset to another. This statement would be more clear if we analyse the following example.

Machines A and B perform similar functions.

Machine A costs ₹. 10,000 and B costs ₹. 12000. A requires ₹. 1,500 per annum as maintenance charges, B ₹. 300 per annum. The income from the machine
will be Rs.3,000 per annum over a period of 10 years. Assuming that both machines are meant to perform the same job, which of the two is to be preferred? Assuming the entrepreneur has only Rs.10,000 if 'B' machine is to be ordered a loan of Rs.2,000 is to be raised.

CASH FLOW STATEMENT

<table>
<thead>
<tr>
<th></th>
<th>Machine</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A</td>
<td>B</td>
</tr>
<tr>
<td>Cost</td>
<td>10,000</td>
<td>12,000</td>
</tr>
<tr>
<td>Expenses over 10 years</td>
<td>15,000</td>
<td>10,000*</td>
</tr>
<tr>
<td>Total</td>
<td>25,000</td>
<td>22,000</td>
</tr>
<tr>
<td>Cash inflow:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income</td>
<td>30,000</td>
<td>30,000</td>
</tr>
<tr>
<td>Net Cash generation</td>
<td>5,000</td>
<td>8,000</td>
</tr>
</tbody>
</table>

*includes Rs.800 x 10 = Rs.8000 Maintenance expenses * interest on borrowings at Rs.200 per annum for 10 years Rs.2000/-. 

In the above case, A generates Rs.5,000/- additional cash for an investment of Rs.10,000 over 10 years; B generates Rs.3,000/- for Rs.12,000/- investment. A comparison of these two performances will reveal that though there is a higher outflow at the initial stage, the total outflow is less in the case of B as compared to A. This results in higher cash generation. Therefore, an industrialist can purchase B in preference to A.
A careful assessment of fixed capital requirements, though is little difficult and complicated initially, is bound to give satisfactory answers in the long run. The industrialist should not hesitate to borrow in this background, if his own sources are insufficient to meet the financial needs.

It is learnt during the enquiry that many industrialists do not assess the requirements of the capital based on sound principles and techniques. Much of this work is done in a hurry and without systems. As a result they suffer ultimately. In the interest of sound business, this practice should be discontinued. The capital requirements are to be determined based on budgets and cash flow charts, cost calculations etc.

The above discussion brings out the following significant factors:

(1) The notion that the debt will reduce the institutional earnings is misleading.

(2) Estimating the fixed investment at lower levels than required, may reduce the rate of earnings.

One should remember that better results could be achieved only if the borrowed funds are properly utilised. If the funds are diverted or misutilised the debt will adversely affect the industrial activity.
The entrepreneur can repay the borrowings from out of his surplus (generated as a result of the investment of the borrowed funds in the business). The moment the debt is repaid to that extent his own funds are blown up. At the same time, if the debts are paid back, there is the danger of landing the business into sickness. So, the borrower should carefully assess his repaying capacities before going for a loan.

7. DEBT-EQUITY RATIO:

This ratio can be computed as under:

$$\text{Debt - equity ratio} = \frac{\text{Term liability}}{\text{Net worth}}$$

This ratio shows the relationship between the capital employed by the firm and its effective net worth and its borrowings.

Here, net worth is calculated with the help of the following formula:

$$\text{Net Worth} = \text{Capital} + \text{Reserves and surplus} - \text{intangible assets}.$$  

Term liability means the long term loans obtained by the concern. Short term loans for meeting fixed capital requirements are also considered while calculating

*Further discussion on repaying capacity of small entrepreneurs follows.*
this. In the absence of required information, the proportion of owned funds in fixed capital is taken to be the net worth as they include capital and accumulated profits. Borrowings towards fixed capital contributions are naturally term loans.

Normally the debt-equity ratio should be $1 : 1$ (12)

This indicates that the net worth is equal to the term borrowings. In other words, the industrialists can borrow funds equal to their own investment.

But, the debt-equity ratio as analysed is not as indicated above. The following table shows the position of debt-equity ratio in the small sector of Rayalaseema.

---

### TABLE 102

**DEBT-EQUITY RATIO IN SMALL SECTOR**

<table>
<thead>
<tr>
<th>Industry Code No.</th>
<th>Industry</th>
<th>Percentage share* to total investment</th>
<th>Debt : Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Own Funds</td>
<td>Borrowings</td>
</tr>
<tr>
<td>20/21</td>
<td>Food Products</td>
<td>67</td>
<td>23</td>
</tr>
<tr>
<td>22</td>
<td>Beverages</td>
<td>49</td>
<td>51</td>
</tr>
<tr>
<td>26</td>
<td>Hosiery and Garments</td>
<td>97</td>
<td>3</td>
</tr>
<tr>
<td>28</td>
<td>Paper products</td>
<td>65</td>
<td>35</td>
</tr>
<tr>
<td>29</td>
<td>Leather products</td>
<td>63</td>
<td>37</td>
</tr>
<tr>
<td>30</td>
<td>Rubber &amp; Plastics</td>
<td>38</td>
<td>62</td>
</tr>
<tr>
<td>31</td>
<td>Chemicals</td>
<td>64</td>
<td>36</td>
</tr>
<tr>
<td>32</td>
<td>Mineral Products</td>
<td>75</td>
<td>25</td>
</tr>
<tr>
<td>34</td>
<td>Metal Products</td>
<td>53</td>
<td>47</td>
</tr>
<tr>
<td>35</td>
<td>Machinery and Machine</td>
<td>80</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td><strong>Tools</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>36</td>
<td>Electrical &amp; Electronics</td>
<td>65</td>
<td>35</td>
</tr>
<tr>
<td>37</td>
<td>Transport Equipment</td>
<td>38</td>
<td>62</td>
</tr>
<tr>
<td></td>
<td><strong>Total Sector's Average</strong></td>
<td>64</td>
<td>36</td>
</tr>
</tbody>
</table>

**Note:** * This ratio is calculated to the total fixed investment in responded units in respective categories.

**Source:** Data collected.
Analysis:

The following facts emerge out of the analysis:

In Food Products the debt is only 1/3 of the equity. The ratio is 2.3 : 6.7. This ratio is still lower in garments where the loan is only 3% of the total investment. The ratio in this respect is 0.3 : 9.7.

In Machinery and Machine Tools out of every 5 units of finance invested only one is borrowed.

The ratio appears to be somewhat peculiar only in two cases viz., Rubber products and transport equipment. In both cases out of 10 units of capital invested only 3.8 units are pooled from own sources, and the balance of 6.2 units are borrowed from various sources.

The ratio appear to be near balancing in only one case i.e., Beverages (5.1 : 4.9). In no case the ratio is equal.

As a whole, the debt is 3.6 out of every 10 units while the net worth is 6.4, if we take the entire sector. This only indicates that in the small sector the debt is very much less than the equity.

This situation shows that there is every scope for the entrepreneurs to mobilise additional resources. Such funds could be used for the expansion of units.
1. PROFITABILITY RATIOS:

Performance of a small unit can be measured by calculating certain profitability ratios. Basically profitability can be examined from three angles:

(1) in relation to sales;
(2) in relation to total capital employed;
(3) in relation to long term borrowings.

(1) **Profitability in relation to sales:**

This can be computed as under:

\[
\text{Profit to sales ratio} = \frac{\text{Net Profit}}{\text{Sales}} \times 100
\]

The ratio is helpful to know the size of the profitability in the activities of the unit.

(2) **Profit in relation to total capital employed:**

This ratio is calculated as under:

\[
\text{Profit to capital employed ratio} = \frac{\text{Net profit before taxation}}{\text{Total liabilities}} \times 100
\]

This helps to compute the rate of return on investment in the specific industrial unit. It can thus act as a guide to the entrepreneur to choose a highly remunerative line.
(3) Profitability in relation to long term borrowings:

In the earlier discussion it was noticed that long term loans are repaid out of surpluses generated by the production activity. The surplus indicates the liquidity generated within. The liquidity so generated creates a capacity to repay the term loan instalments without disturbing the smooth flow of business operations. Hence this ratio acts as an indicator to judge the efficiency and competence of the industrial unit.

Surplus is calculated as under:

\[ \text{Surplus} = \text{Net Profit} - (10\% \text{ investment}) + \text{Depreciation} \]

Note: (1) 10% of investment is deducted to assure entrepreneur a minimum return, which he can use for his maintenance. This can be treated as drawings for personal use.

(2) This 10% is so fixed based on the maximum interest payable by Commercial Banks on Fixed Deposits. The surplus so generated should be equal to at least the loan instalments repayable over a year.

Performance of small units:

There is a general feeling that small sector is not working satisfactorily. Many entrepreneurs complain
that they could not earn profits due to various reasons like: lack of timely finance, non-availability of raw materials, limited marketability of the products etc. Due to this the small sector is said to be financially weak. In this background, let us examine the performance of small units in Rayalaseema.

**Profitability in relation to sales and investment:**

The following table shows (1) the working details of different industrial units in the small sector and (2) the profitability in relation to sales and investment.
<table>
<thead>
<tr>
<th>Code No.</th>
<th>Industry</th>
<th>No. of responded Units</th>
<th>Capital Rs.</th>
<th>Material Rs.</th>
<th>Wages &amp; Salaries Rs.</th>
<th>Utilities* Rs.</th>
<th>1/12 of total fixed capital Rs.</th>
<th>Total Cost Col.7+45+10 Rs.</th>
<th>Profit/ Loss Rs.</th>
<th>% Profit on Sales</th>
<th>Investment on Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>20/21</td>
<td>Food Products</td>
<td>20</td>
<td>3362</td>
<td>2298</td>
<td>5660</td>
<td>18165</td>
<td>322.74</td>
<td>80.69</td>
<td>471.67</td>
<td>19040.10</td>
<td>22557</td>
</tr>
<tr>
<td>22</td>
<td>Beverages</td>
<td>4</td>
<td>2418</td>
<td>480</td>
<td>2893</td>
<td>575</td>
<td>128.00</td>
<td>32.00</td>
<td>241.50</td>
<td>976.50</td>
<td>1350</td>
</tr>
<tr>
<td>26</td>
<td>Garments</td>
<td>7</td>
<td>447</td>
<td>230</td>
<td>677</td>
<td>525</td>
<td>89.00</td>
<td>22.25</td>
<td>56.25</td>
<td>692.67</td>
<td>1400</td>
</tr>
<tr>
<td>28</td>
<td>Paper products</td>
<td>16</td>
<td>1586.5</td>
<td>621</td>
<td>2207.5</td>
<td>2491</td>
<td>364.90</td>
<td>91.23</td>
<td>183.96</td>
<td>3131.09</td>
<td>3904</td>
</tr>
<tr>
<td>29</td>
<td>Leather products</td>
<td>5</td>
<td>109.5</td>
<td>194</td>
<td>303.5</td>
<td>195</td>
<td>37.20</td>
<td>9.30</td>
<td>25.29</td>
<td>266.79</td>
<td>345</td>
</tr>
<tr>
<td>30</td>
<td>Rubber &amp; Plastics</td>
<td>7</td>
<td>2013</td>
<td>1771</td>
<td>3784</td>
<td>5758</td>
<td>1382.50</td>
<td>345.63</td>
<td>322.83</td>
<td>7808.96</td>
<td>9254</td>
</tr>
<tr>
<td>31</td>
<td>Chemicals</td>
<td>18</td>
<td>2955.5</td>
<td>2825</td>
<td>5780.5</td>
<td>5817</td>
<td>5435.00</td>
<td>1598.75</td>
<td>481.71</td>
<td>13092.16</td>
<td>12744</td>
</tr>
<tr>
<td>32</td>
<td>Mineral products</td>
<td>13</td>
<td>2819</td>
<td>1350</td>
<td>4169</td>
<td>2377</td>
<td>606.70</td>
<td>152.18</td>
<td>347.42</td>
<td>3485.30</td>
<td>4226</td>
</tr>
<tr>
<td>34</td>
<td>Metal Products</td>
<td>23</td>
<td>4355.5</td>
<td>7386</td>
<td>11741.5</td>
<td>6954</td>
<td>1243.30</td>
<td>310.83</td>
<td>978.46</td>
<td>9486.59</td>
<td>11225</td>
</tr>
<tr>
<td>35</td>
<td>Machinery &amp; Machine tools</td>
<td>3</td>
<td>710</td>
<td>295</td>
<td>1005</td>
<td>504</td>
<td>51.00</td>
<td>12.75</td>
<td>83.75</td>
<td>651.50</td>
<td>946</td>
</tr>
<tr>
<td>36</td>
<td>Electrical &amp; Electronics</td>
<td>6</td>
<td>3470</td>
<td>5535</td>
<td>9005</td>
<td>1905</td>
<td>415.20</td>
<td>103.80</td>
<td>750.42</td>
<td>3174.42</td>
<td>2026</td>
</tr>
<tr>
<td>37</td>
<td>Transport Equipment</td>
<td>3</td>
<td>560</td>
<td>195</td>
<td>755</td>
<td>955</td>
<td>544.00</td>
<td>136.00</td>
<td>62.92</td>
<td>1697.92</td>
<td>1839</td>
</tr>
</tbody>
</table>

**Sectoral Total** | 125 | 24806 | 23180 | 47986 | 46221 | 10621.54 | 2655.41 | 4006.35 | 65504.30 | 72495 | 8990.70 | 12.40 | 18.74 |

*Note: (1) The above figures relate to the total responded units in the respective industries.
   (2) Figures are averages for three years.

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*See analysis for explanation.*

Source: Data collected.
PERFORMANCE ASSESSMENT
OF
SMALL INDUSTRIES

Legend

Profit or loss on
sales

Profit or loss on
investment

PERCENTAGE OF PROFIT/LOSS

PROFIT

LOSS

CODE NUMBER OF INDUSTRY

20 22 26 28 29 30 31 32 34 35 36 37
Analysis:

In constructing the table above the profit is arrived at by using the following formula:

\[
(13) \text{PROFIT} = \text{SALES} - (\text{Raw material} + \text{Utilities} + \text{Wages & Salaries} + \frac{1}{12} \text{of total fixed assets})
\]

The following details explain the base adopted for the formula and its application in this study.

(1) Utilities: Means cost of power, taxes paid by the entrepreneur to the local authority to get water connections, transport costs etc. In other words, the value added to convert the raw material into finished products is taken as utilities.

In the absence of required information the expenses incurred towards utilities is taken as 25% on labour cost.

This 25% is based on the information supplied by a few responded units. To maintain uniformity in treatment a common rate is applied for all the units.

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(13) Based on the discussion in T.V.S. RAMA MOHAN RAO and SARATHI ACHARYA : op.cit. P.21
(2) The portion of 1/12 applied to fixed assets is the convention prescribed by the Annual Survey of Industries (ASI) for all the sizes which they cover. This is treated as provision for depreciation on fixed assets.

**Profit in relation to sales:**

Profit as a percentage to sales is maximum in Garments (Code No. 26) at 53.20% closely followed by Beverages (Code No. 22) at 49.92%.

31% profit on sales is noticed in respect of Machinery and Machine tools industry (Code No. 35).

Leather products (Code No. 29) and paper products (Code No. 28) are earning 22.67% and 19.80% of profits respectively.

A profit of 17.55% is available for units dealing in mineral products (Code No. 32).

In respect of Food Products (Code Nos. 20/21), Rubber and Plastics (Code No. 30) and Metal Products (Code No. 34) the earnings are around 15% on sales.

Units dealing in transport equipment (Code No. 37) appear to be having a return of 7.62% only.

In contrast a loss of 56.68% is incurred by Electrical and Electronics industry (Code No. 36).
Chemical units (Code No. 31) are incurring a marginal loss of 2.73%.

Though the results vary widely among different industrial groups, taking the small sector as a whole a return of 12.40% could be noticed.

**Profit on investment:**

Let us compare the profit on sales with that of profit on investment.

The rate of return on investment is as high as 116.30% in the Garments industry (Code No. 26) and 62.14% in Food Products (Code Nos. 20/21).

In respect of Rubber and Plastics (Code No. 30), Paper Products (Code No. 28) and Beverages (Code No. 22) the rate of return is of the order of 37.30%, 35.01% and 33.59% respectively.

29.30% of profits are noticed in respect of Machinery and Machine tools, while units dealing in leather products (Code No. 29) earn 25.71%. Transport equipment industry has 18.55% return on capital.

17.71% and 14.81% is the return in case of Mineral products (Code No. 32) and Metal Products (Code No. 34) units respectively.
Electrical and Electronic units are incurring a loss of 12.75%. Chemical units are losing 6.03%.

It is observed that on an average a small unit earns a return of 18.74% on investment. This position is no doubt satisfactory and also shows that the sector is not at loss.

The loss in respect of Chemicals and Electrical and Electronic units may be due to the following reasons:

(1) Many units in these groups are new born. (14)
(2) Non-utilisation of available capacities.
(3) Higher rate of labour costs as a result of the usage of highly skilled labour.
(4) Slow movement of products due to lack of good market facilities.
(5) In respect of Electrical and Electronic goods the supply contracts are entered into with Governments or their agencies for longer periods. The rates are not adjusted with the fluctuations in production costs.
(6) Units in Chemical industry are purchasing their raw material requirements at higher prices to meet supply commitments and maintain the market.

Our study indicates that these losses could be minimised if the units:

(14) Based on the discussions in Chapter IV.
(1) work to full capacities,
(2) secure raw material at reasonable prices,
(3) update their contracts with due adjustments, and
(4) improve their marketing.

Profitability in relation to borrowings:

Surplus generation in relation to term loans and total borrowings is calculated to evaluate the liquidity generation in different small units under different groups. It is observed that small units have the capacity to repay their borrowings in time through satisfactory liquidity generation.

The following table shows the profitability of small units in relation to borrowings (surplus generation).
<table>
<thead>
<tr>
<th>Year</th>
<th>Metal</th>
<th>Silver</th>
<th>Gold</th>
<th>Base Metals</th>
<th>Soccer</th>
<th>Track &amp; Field</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2023</td>
<td>30%</td>
<td>20%</td>
<td>40%</td>
<td>10%</td>
<td>50%</td>
<td>50%</td>
<td>200%</td>
</tr>
<tr>
<td>2024</td>
<td>32%</td>
<td>18%</td>
<td>45%</td>
<td>12%</td>
<td>60%</td>
<td>60%</td>
<td>240%</td>
</tr>
<tr>
<td>2025</td>
<td>35%</td>
<td>15%</td>
<td>42%</td>
<td>14%</td>
<td>65%</td>
<td>65%</td>
<td>255%</td>
</tr>
</tbody>
</table>

Table 104

Source: Data collected.
An Analysis:

The above table shows surplus generations in relation to borrowings:

Surplus generation in relation to total borrowings (long and short term) ranges between a minimum of 21% and a maximum of 460%. Only in two industries viz., Chemicals (Code No.31) and Electrical and Electronics (Code No.36) no liquidity is generated as the industry is always at loss. In respect of all other cases, the liquidity generation is above the satisfactory levels.*

Similarly, when surplus is calculated as a percentage to long term loans the liquidity generation is between 31.68% (Transport equipment) and 554% (Garments).

In the entire sector there appears to be a reasonable level of liquidity generation. This indicates that the small units have the capacity to repay their borrowings over a long period.

At this juncture a doubt may arise as to when the level of surplus generation is satisfactory in the

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*Liquidity generation could be taken as reasonable if the generation is above 15% of the term loans. This 15% is arrived at assuming (1) maximum period for term loans to be seven years (2) the loans are repaid in equal instalments under normal conditions.
sector, why many units are not repaying loans borrowed? There appear to be a few basic reasons for such a situation. They are:

(1) The surplus generation is at maximum in the smallest of the small units. For eg., Garment units, Food products units. Many units in these groups possess very low investment but have high liquidity generation capacity.

(2) Units manufacturing products with assured markets are generating surplus.

(3) Entrepreneurs not relying on Government supplies are generating enough surplus. For eg., Chemical and Electronic units are depending more upon Government supplies and purchases. Hence there is low or no surplus generation.

(4) Diversification of funds for personal use and falsification of accounts appear to be a common feature with many industrialists.

(5) Frequent change of policies by the Government and liberal attitude of institutions in rescheduling loans have driven the small entrepreneurs to a wrong track. The result is intentional evasion of repayment.

This does not mean that all borrowers are evading repayment. Only borrowers of large amounts are seeking rescheduling. Major share of borrowings in this sector
went to small group of entrepreneurs who seek rescheduling for various reasons. As a result the entire sector is blamed.

CONCLUSIONS:

Majority of small units are relying more on own funds to meet their fixed capital requirements. As regards working capital, Commercial Banks are supplying a major portion of the sectors requirements.

In an average small unit 30% of the fixed investment is spent on buildings, 60% to secure plant and equipment, 10% towards furniture and fixtures.

Debt equity ratio in an average unit is around 1 : 2. Small units are earning reasonable profits and also generating the required liquidity to repay their borrowings. The fear of entrepreneurs that borrowings will affect their liquidity is merely psychological. They can expand their business activity by tapping all possible sources upto a reasonable level.
SUMMARY

1. Every industry needs finance to attend to the routine economic activity. If the entrepreneur has the funds to meet his requirements, he can invest the same and start the unit. If he does not have enough funds he will have to borrow to fill the gap between requirements and available owned funds.

2. There are two types of capital viz.,
   (1) Fixed capital used to secure fixed assets and
   (2) Working capital used to meet the daily needs of the business.

3. Amounts borrowed towards fixed capital needs are long term loans and are repaid out of the firm's earnings or surplus. In respect of the other category the borrowings are short-term loans and repayment is made out of the sale proceeds.

4. There are different sources of finance viz.,
   I. Internal: (1) Own Funds
      (2) Ploughing back profits
   II. External: (1) Subsidies and Government Aid
      (2) Financial Institutions
      (3) Commercial Banks and
      (4) Other sources like: Private money lenders, friends and relatives.
5. Majority of small units are banking more upon own funds (64%) to meet their fixed capital requirements. Among the other sources institutional finance appear to be playing a dominant role in the supply of long term finance to small units.

6. In respect of working capital the share of own funds is very low. Commercial Banks supply nearly 73% of the small sector's short term requirements. Operating cycles in a small unit is limited.

7. It was observed that nearly 30% of fixed investment, in an average small unit, is spent towards buildings, while more than 60% is used to secure plant and machinery. The remaining is used to provide fixtures and fittings for the unit.

8. Debt equity ratio in an average unit is around 1 : 2. Thus there is a possibility for the unit to raise some more funds to improve its activity. The ratio can go up to 1 : 1.

9. Baring units in Chemical industry and Electrical and Electronic industry, all others are earning profits. An average small unit earns a profit of 12% on turnover and 18% on investment. Thus it can be said that small sector is well above the danger line.

10. Surplus generation in the sector is satisfactory. If the funds are properly channelised, small units can repay their debts within the time allowed for repayment.
CHAPTER IX

PRODUCTION MANAGEMENT
1. INTRODUCTION:

Production: Meaning and Definition:

Production means conversion of raw material into finished products. An industrialist will always aim at
(1) maximum production at minimum cost to enjoy maximum returns on investment
(2) maintaining quality of production and keeping up delivery schedules to retain customers.

Production Management helps an entrepreneur to achieve the above goals through production planning, control and follow-up. Thus Production Management is the process of 'effectively planning, co-ordinating and controlling production'.

Scope of Production Management:

Major activities of production management are:
(1) Production planning and development i.e., invention of new products and designing them according to market demands.
(2) Production administration which deals with three specialised parts of production activity,
namely, (a) production engineering
(b) production planning and
(c) production control.

(3) Implementation of plans, policies and
decisions. This is a continuous managerial
function involving direction and motivation
of people at work to get things done through
them.

(4) Supporting services and departments eg.,
Standardisation, simplification, specialisa-
tion, inspection and quality control. Inven-
tory control, research and development,
employee welfare are also part of this function.

Following are the advantages of a good production
management to an industrial unit:

1. It increases production and hence higher
   profits can be earned.
2. Economies of mass production will reduce
   production expenses.
3. Labourers can be paid higher wages and bonus
   because of higher profits.
4. Application of quality control will result
   in production of better quality products.
5. Wastage is minimised.

Production Management can conveniently be adopted
in any industrial unit, irrespective of its size
(large, medium or small). It is specially essential for small units for the following reasons:

1. Majority of units being proprietary concerns, induction of production management will streamline the production process. This will reduce the burden on the entrepreneur.

2. Scientific management will indicate a right path while decision making.

3. Management of production viz., volume and quality will enable the industrialist to confidently face the competitive markets.

4. The entrepreneur can concentrate on the expansion of the unit on scientific lines.

Advantages of a good Production Management in a small unit:

1. It results in higher productivity at reasonable costs.

2. Better quality goods can be delivered to customers according to delivery schedules.

3. The entrepreneur can make use of the men and machinery available efficiently.

4. Effective co-operation is possible between small and large scale units which are inter-dependent for supply of raw materials, components, services etc.
5. Higher work efficiency of the firm also results in higher earnings of the labourers. Thus workers can get higher remuneration and the resultant job satisfaction. This will reduce labour turnover in the unit.

6. The entrepreneur can achieve higher return on investment.

7. Ultimately a well organised, stable industrial unit will add to the economic prosperity of the country in general and the region in particular.

2. **Constituents of Production Management:**

   Important constituents of Production Management are:

   (1) **Plant location**

   (2) **Layout of factory building and Machinery.**

   (3) **Planning and controlling production.**

   Though there are various other aspects on which the production management has to concentrate, it is considered absolutely necessary to lay more emphasis on the above, particularly for the small sector. Let us discuss various constituents of production management in some detail.

1. **Plant Location:**

   The location of an industrial or business unit is a 'risky' and 'long-run' commitment. It is very
difficult to shift the unit to a new place when once it is established, unless it is for the sake of industrial dispersion or to observe a Government rule or due to absolute industrial purposes. Otherwise, neither it is advisable nor desirable even in the case of big industry to change the location. But, under inevitable circumstances, the location of a unit can be changed and shifted to a better location. Sometimes the location may be changed due to labour problems, power shortage, etc. 'It is for this reason that small manufacturers, particularly, are encouraged to rent rather than buy or build the first building they occupy'\(^{(1)}\) -- Until they get settled. A small industrialist, normally, should look to the future, rather than to some immediate benefits. If an entrepreneur starts an industrial unit in a particular place attracted by certain concessions given by the Government and if the infrastructural facilities like roads, transport facilities, water and sewage systems are not available the concessions awarded would be of no use for the prosperity of the unit.

Important considerations before deciding the location of a unit are the following:

(a) **General location:**

This refers to the city, town or village where the unit is to be located. The following factors are to be considered in this respect.

\(^{(1)}\) **BAUMBACK and LAWYER: op.cit.: p.145**
(1) **Availability of Raw material:**

The site selected should be very near to the source of raw material. This will enable the unit to secure the material at reasonable rates. Supply will also be continuous if the source of raw material is nearby. As the lead time for supply will be short, the amount of working capital required for this purpose will also be limited. The unit thus can be run with minimum working capital. If the raw material is of perishable in nature the proximity to the source of supply will be an added advantage.

(2) **Availability of infrastructural facilities:**

Availability of abundant power, water supply and transport facilities are together called infrastructural facilities. There should be a transport link either road or rail between the place of location and the rest of the country. This will quicken the process of supply of material to the production centre as well as the release of finished products into the market. Similarly, power and water are two essential requirements of production units to carry on their activities. The place of location should, therefore, have both these essential requirements in addition to others, for smooth running of the factory.
(3) **Availability of cheap and efficient labour:**

While selecting a site, it is important to consider the availability of the required quality of labour at reasonable rates. The entrepreneur should remember that the cost of labour will directly affect the production programme and product cost. If the labour is to be procured from far away places, the production cost will go up and affects the earnings of the unit.

(4) **Proximity to Markets:**

If the factory is situated near the market, the cost of transporting finished goods to the point of sale can greatly be reduced. This can certainly reduce the prices and increase the sales.

(5) **Suitability of climate:**

This is a governing factor for industries like cotton textile, silk reeling etc. Such units need humid climate to maintain the quality in production. This is not a major factor for large industrial houses as they can create the required humidity by artificial means. But, this is a costly process which is beyond the reach of small units. Hence, small units must pay adequate attention to this factor.
Existence of ancillary/mother/large units:

Some times existence of ancillary units may also influence the location of a unit. This is specially so in the case of small units producing ancillary products on the orders of a mother unit. Such location will enable the unit to get job orders frequently and attend to them expeditiously. Suitable location of a small unit can bring about a perfect rapport between large and small units.

Other factors:

Factors like availability of communication and recreation facilities, existence of banking institutions will also influence the location of a unit.

Selection of Actual site:

Having selected the general area of location, the industrialist would be faced with the problem of selection of the actual site. At this stage, important factors considered are:

1. Cost of land,
2. Cost of levelling the land and providing foundations, subsoil conditions for taking up drainage facilities, etc. (cost of developing the land).
(3) cost of construction,
(4) accessibility of the site to highways, railway stations and other means of transport.
(5) restrictions placed by the local authorities,
(6) cost of installation of electricity, gas, water and other facilities,
(7) facilities available currently and possibilities for future expansion.

Taking the above factors into account, the site which is ideal to the entrepreneur should be selected.

PRACTICES IN SMALL SECTOR:

Small industrialist is faced with a considerable number of problems before starting the unit. Many of the entrepreneurs suffer from shortage of raw materials, lack of market for the product etc. All these shortcomings can be attributed to improper and unsound location. If the location of the unit is on sound lines, it would be prosperous. Thus there is considerable force in the opinion that the "location is the important factor determining the ultimate success or failure of a small unit."(2)

The small unit should be located at a place very near to the source of raw material to ensure regular

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(2) VASANT DESAI: op. cit. p. 166.
supply of material at minimum cost. This is very important in case of material oriented industrial units. If the unit is labour oriented or market oriented, the location should be according to the respective governing factor.

**PATTERN OF LOCATION:**

In the absence of any special factor, with two or more alternatives, the elements of total cost of starting the unit at each of the alternative locations should be closely studied. The site which gives the minimum total cost, should be selected. It was noticed during our study that about 80% of the units are located very near to the residence of the entrepreneurs.* A few units adduce the availability of the market as the reason for selecting the existing sites. Only some units in mineral products group are located near the source of raw material as the industry is material oriented.**(3)**

Many small entrepreneurs are thus ignoring a consideration of:

(1) the recurring cost of transporting material to the production centres,

*The fact that majority units are located outside Industrial Estates also supports this argument. (Please see Chapter V).

(3) Field Study Notes.
(2) the importance of availability of labour, infrastructure facilities like water, power, effluence disposal etc., and

(3) the problems posed by the local authorities.

Thus due to faulty selection of the location many industrialists have suffered losses.

2. LAYOUT OF FACTORY:

Proper planning of a factory layout will increase the operating efficiency of the unit. The layout should aim at minimising the production time. 'A best layout will show that it saves the floor space, shortens the travel of material, increases production and reduces the cost by utilising labour more efficiently'. (4)

If the layout is not properly planned, the production cost will increase and the men and machines could not be properly made use of.

Layout of a manufacturing unit depends upon the 'type of production process' in which the factory is engaged. While planning the layout the entrepreneur must first plan the factory building and then the plant layout inside the building.


* Generally, manufacturing processes are classified into three basic types viz.,
The following are the basic principles of Factory layout:

The building of a factory must

(1) answer to the location of the plant and office conveniently,
(2) make use of the available space to the best possible extent,
(3) be durable, safe and see that the cost is within the reach of the entrepreneur,
(4) be well ventilated,
(5) be well protected by a compound,
(6) be goodlooking and elegant,
(7) provide for future expansion of the unit,
(8) have sanitary convenience,
(9) answer the requirements of Factories Act, and
(10) provide easy access to supervisors and workers to move from place to place.

(1) Intermittent Manufacture: Units producing goods only to consumers specifications. In other words, job work is the main function of these units. In such units production is not standardised.

(2) Continuous Manufacture: Units under this category bring out products in anticipation of sales and keep stock of goods to meet the demand. In this case production is standardised and continuous. Such units are called "mass production" centres.

(3) Repetitive Manufacture: In this type a large variety of standardised products are manufactured. Each product is brought out in economic lots from time to time. No single product is manufactured in sufficient volume to justify its production on a continuous basis.
Plant layout:

Plant layout; "is the arrangement of machines within a factory, so that each operation is performed at the point of greatest convenience". The layout of a factory varies depending upon its size and type of plant.

Main objects of plant layout are:

(1) Maximum utilisation of floor area.
(2) Reduction of internal transport from one operation to another.
(3) Minimising production delays.
(4) Provide for easy and effective supervision.
(5) Save production costs.
(6) Minimise material wastage by location of stores at a convenient place.

Principles of plant layout:

Following are six basic principles of 'plant layout':

(1) Principle of overall interpretation:
   According to this principle, the best layout is one which integrates the man, materials, machinery, supporting activities and any other such factors that result in the best compromises.

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(2) Principle of minimum distance:
Men and materials have to move the minimum required distance between operations.

(3) Principle of flow or sequence:
The layout must arrange the work area for each operation or process in the same order or sequence that forms the production process.

(4) Principle of cubic space:
The best layout must make use of the available space both vertically and horizontally in the most economic and efficient manner.

(5) Principle of satisfaction and safety:
The plant layout must aim at the safety of the workers and also satisfy their individual requirements of working space.

(6) Principle of Flexibility:
The best layout must enable re-arrangement at minimum cost and least inconvenience to the entrepreneur as well as to the workers.

Symptoms of a poor plant layout:

Following are the symptoms of a poor plant layout:
(1) Congestion of machines, materials and workers.

(2) Improper utilisation of available space.

(3) Long-zig-zag material flow lines.

(4) Long production lines.

(5) Excessive mental and physical strain on workers.

(6) Difficulty in supervision and control.

(7) Delay in production and deliveries.

(8) Increased production expenses.

**Layout and Small Unit:**

Layout of a unit is to be considered individually as it differs from unit to unit. But, the importance of this is the same in any organisation small or big and to any production process simple or multiple. Small units with simple production process can further simplify their process by adopting a good plant layout. In case of large units the multiple production process can be simplified with the help of a good plant layout. They can sub-divide the layout into different shops or floors depending on the production process. In case of small units, the production process will generally be simple and hence sub-division may not be necessary.

**Deficiencies:**

In practice many small units do not appear to be giving much importance to this aspect of production.
management. Many submit plans to the authorities to meet the legal/statutory obligations. The authorities are also not particular of the layout. The absence of proper layout can be felt by the industrialists only when there is an obstruction to the smooth flow of the production process. This will result in production delays and higher production costs. By the time this omission is noticed, it will be difficult for the entrepreneur to alter the layout as it may involve considerable financial commitment.

Let us consider the cases of a few units observed during this study.

**A few cases:**

**Case I:**

Unit 'A' at Proddatur, Cuddapah District:

The unit produces enamel coated writing Slates. This comes under chemical industry group (Code No.31). The factory is located in Assisted Private Industrial Estate at Proddatur and was started in 1973. The product is having interstate market. There is a showroom cum office inside the factory building.

The unit is a partnership firm. It is managed by one of the partners, a science graduate. The production process consists of five distinct stages viz.,
(1) Sheet cutting:
Under this, the steel sheets of 4' x 6' sizes is cut to the required size of 9" x 7". A cutting machine operated by hand is used for this purpose.

(2) Enamel coating:
The cut sheets are dipped in enamel solution for a few seconds to give a coating to the sheet. The coated sheet is kept for a few minutes in shade to get dried up.

(3) Heat treatment:
Then the sheet is put into the heating chamber and is kept inside for ten minutes. Stages 2 and 3 are repeated once again. The coating on the slate gets hardened and turns black.

(4) Plastic beading:
The slate is fixed to a magnetic frame and fed into the plastic beading unit. This fixes a plastic lining all around the slate in a few seconds. The slates are fed into this machine one after the other manually.

(5) Finishing:
The slate is polished, excess plastic, if any, on the sides is cut out. Thus the slate is made ready for the market.

The layout of the factory is as under.
LAYOUT OF UNIT 'A'  
(Actual)

Nomenclature:
D = Door  
W = Window  
Note: Figure not to scale
At present the stores and godown are located in the office itself. Cutting the sheet is done in open space within the compound. There is no link door between the office and the work shed. Hence, the workers are made to walk a long distance to fetch material from the store. Similarly, the managing partner should also move between the office and the shed to attend to the office and supervisory work. There is an interruption to the movement of material between stages 2 and 3 as the finished goods are taken to the godown. These drawbacks can be overcome if the layout of the factory as well as plant is slightly altered as indicated in figure 1 below.
LAYOUT OF UNIT A’
(SUGGESTED)

NOMENCLATURE
1. CUTTING
2. ENAMEL COATING
3. HEAT CHAMBER
4. BENDING
5. FINISHING

MP: MANAGING PARTNER
D: DOOR
W: WINDOW

NOTE: FIGURE NOT TO SCALE
By changing the layout as above, the entrepreneur can save lot of time which may effectively be used to improve production. In the existing arrangement stores are maintained within the office. Cutting is done outside the shed. A lot of space inside the shed is left unused.

The entrepreneur can make best use of the available space if he adopts the suggested layout. The cost involved is minimum as permanent structures like Heat Chamber (3) and plastic Beeding machine (4) are left untouched. A door in the wall behind the Heat Chamber will provide easy access to the managing partner to supervise the work. Shifting stores into the shed will minimise the movement of the workers. Cutting machine is portable and hence can be placed anywhere without difficulty. Enamel coating is done by hand, similarly finishing. Hence no cost is involved in rearranging them. Thus the unit can make best use of the available space.

Case II:

Unit 'B' at Pamidi, Anantapur District:

This unit manufactures readymade garments (Code No.26) of different sizes from 'Chindis' or cloth bits. The unit is a proprietary concern. 10 sewing machines are working in the unit. The proprietor is the master tailor. He cuts the cloth
and distributes them to the tailors. The stitched garments are pressed and packed. This may be taken as finishing stage. Thus there are three stages of manufacture viz., (1) cutting, (2) sewing and (3) finishing. There is also a show room. This is attended by the proprietor himself. The unit is located at the residence of the entrepreneur. Layout of the unit is as shown below.
LAYOUT OF UNIT 'B' (ACTUAL)

NOMENCLATURE:
D: DOOR
W: WINDOW
NOTE: FIGURE NOT TO SCALE
In the above set up there is a confusion in the movement of material before and after finishing. The workers move in a zig-zag way obstructing one another. The entrepreneur seems to have arranged this outlay to have a better control over the workers. But, this objective does not appear to have been achieved. The layout therefore can be re-arranged, as shown in the following figure A, by interchanging the positions of stores, cutting table and machines.
LAYOUT OF UNIT 'B'
(SUGGESTED)

NOMENCLATURE:
D: DOOR
W: WINDOW

NOTE: FIGURE NOT TO SCALE
The shop being a residence cum production centre, structural alterations are not possible at low cost. In the present set up it is noticed that the available space is not properly used. Finishing is done at two places. Some space available by the side of a big cutting table is left unused. There is unnecessary movement of men and materials. The store cum show room is away from the cutting table attended by the proprietor himself. Thus the entrepreneur is wasting his time in moving between the store and the table frequently.

All these drawbacks could be avoided if the layout is changed as suggested. Stores being a temporary structure in the form of wooden racks can be brought into a corner of the hall and the proprietor can have the cutting table by the side of the doorway to the showroom. This will reduce his movements. It will also leave more space to the entrepreneur to improve his showroom, so that more customers could be accommodated. Finishing can be done at one place very near the showroom as the packed articles are directly kept in the show cases. Thus the master tailor who is also the proprietor can have good control over the workers and at the same time attend to the customers without much strain.
Case III:

Unit 'C' at Anantapur.

This is a foundry (Code No. 34). A cast iron moulding unit. A proprietary concern started in 1976. The entrepreneur is a practising lawyer and a reputed person in the district.

The unit prepares cast iron frames and base plates for various machines produced by other small units in the area. The products are not standardised. The production is repetitive. The layout of the unit is as given below.
LAYOUT OF UNIT 'C' (ACTUAL)

NOMENCLATURE:

- : SHED WITH 1.5-METER SIDE WALL
- : OPEN SHED
- : SITE BOUNDARY
D : DOOR
W : WINDOW

NOTE: FIGURE NOT TO SCALE
It can be noticed that the layout of this unit is prepared in a convenient way. There are only three stages in the production of the moulds. In the first stage iron ore is melted and transferred to the moulding block. At the second stage the molten (liquid) metal is put into clay moulds prepared according to requirements. The mould is allowed to settle and cool for 16 to 20 hours. After cooling the clay structure is dismantled. In the last stage the mould is inspected and given finishing touches before despatching to the godown. Thus, in this case, there is no interruption to the production flow.

Case IV:

Unit 'D' at Tirupati in Chittoor District.

The unit manufactures paper covers of different sizes. This is a partnership firm. One of the partners attends to the production aspect, while the other collects orders from various parties. The unit has local as well as state market. This is one of the two such units working in Rayalseema.

An automatic machine is installed to manufacture paper covers of different sizes. A small printing machine and composing desk are set up to print information to be put on the cover as per the customers' requirements. The unit can produce nearly one lakh covers a day without printing matter and ten thousand
with printing matter. The cover making machine is powered with automatic pasting facilities and speed adjustment. Two operators are employed to look after the machine. The printing machine is powered and manually operated. One operator attends to this machine, he is also in charge of composing. Another worker sorts out the defectives from the manufactured lot and piles the finished stock in the godown. The actual lay out of the unit is as shown below:
NOMENCLATURE
D: DOOR
W: WINDOW
RS: ROLLING SHUTTER
R: RAW MATERIAL
M1: PAPER COVER MAKING MACHINE (AUTOMATIC-POWER DRIVEN)
M2: PRINTING MACHINE (HAND OPERATED-POWER DRIVEN)
CD: COMPOSING DESK
P.M: PRODUCTION MANAGER
O1, O2, O3, O4: OPERATORS/WORKERS
NOTE: FIGURE NOT TO SCALE
The production process in this case is simple and consists of two stages viz., cover making and printing. But, as seen in the layout the production lines appear to be lengthy. Some movements are also being interrupted. The raw material is being stored in two places. (Raw material will be in huge rolls of 4 feet height and 5 feet diameter). The production manager being seated in a corner of the shop cannot supervise the work of O2 and O3. Raw material should also be frequently shifted from stages I to II. This will consume more time and energy of the workers, which can otherwise be useful.

The layout can be modified as under.
LAYOUT OF UNIT D
(SUGGESTED)

NOMENCLATURE
D: DOOR
W: WINDOW
RS: ROLLING SHUTTER
M: RAW MATERIAL
M1: PAPER COVER MAKING MACHINE
   (AUTOMATIC-POWER DRIVEN)
M2: PRINTING MACHINE
   (HAND OPERATED-POWER DRIVEN)
CD: COMPOSING DESK
PM: PRODUCTION MANAGER
0, 1, 2, 3, 4: OPERATORS / WORKERS
NOTE: FIGURE NOT TO SCALE
The automatic paper cover making machine (Machine 1) being a big one need not be disturbed. Stores can be shifted to the mainshed in full. The composing desk and the printing machine may be shifted to the room. This will reduce the length of the production line as shown in the figure. The production manager can have his seat in the room opposite to the doorway. This will enable him to supervise all the workers. There will be ample space for storing raw material and stock of the finished goods. Thus the entrepreneur can make best use of the available space.

Case V:

Unit 'E' at Kurnool:

The unit manufactures bread, biscuits and cakes (Code Nos. 20/21). This is a proprietary concern. The layout of the unit is as shown below.
LAYOUT OF UNIT 'E'
(ACTUAL)

NOMENCLATURE:

D : DOOR
W : WINDOW
GW: GLASS SEE-THROUGH WINDOW
P : PROPRIETOR
K : KNEADING MACHINE
T_1 : BISCUIT CUTTING TABLE
T_2 : BREAD MAKING TABLE
T_3 : CAKE DESIGNING TABLE

NOTE: FIGURE NOT TO SCALE
The product manufactured being perishable, the unit produces limited quantities to local market. The production process is simple. Maida is kneaded by the kneading machine (electrically operated). The dough is distributed among the three tables $T_1$, $T_2$ and $T_3$ for conversion into biscuits, bread and cakes respectively. From here the semi-finished products are sent to the oven for baking. Then the finished product is sent to the proprietor's room for stocking. Stores is situated in the room itself. This ensures better control by the entrepreneur over material. He can supervise the work through the glass window, at the same time attend to the customers. Thus in this case there appears to be a simple production line and a satisfactory layout. The entrepreneur wants to expand the unit by making use of the available space.

**An Assessment:**

Out of the five cases discussed above, only two have got a well planned layout. The other three appear to have not given due thought to the layout on account of which they are facing some inconveniences in production. Perhaps it is the experience of many such small units. It may thus be said that the majority of small entrepreneurs pay least attention to the shop-planning, unit and plant layout.
Another omission noticed in majority of cases is that the stores are not properly located even if the unit and plant layout is as per the scientific principles. This may be due to any one or all of the following reasons:

(1) lack of space

(2) the proprietors' intention to have direct control over the stores

(3) Lack of knowledge of the entrepreneur on importance of stores location.

The stores should be located in such a way that the materials, consumables etc., are sent to the work spot at minimum possible time with least interruption to the production process. A good plant layout should thus place, "the right equipment at the right position to be worked in the right manner for completing the manufacturing process in the shortest possible time."

Absence of proper layout is leading to

(1) production delays

(2) increase in production expenses

(3) wastage of materials

(4) loss of market due to delays in meeting delivery schedule etc.
3. PRODUCTION PLANNING AND CONTROL:

Millet observes, "Planning is the process of determining the objectives of administrative efforts and of devising the means calculated to achieve them." Accordingly planning means defining the objectives of the organisation and suggesting the ways to reach them. The method of reaching the desired goal will be determined keeping in view the past experience and duly estimated future trends. It is well known that the production is "Conversion of raw material into finished product." Production planning involves the organisation and planning of manufacturing process. The main objective of production planning is to ensure that customers will be supplied with their requirements according to the delivery schedules. It will also aim at minimising the production expenses by efficient planning of various activities. Thus the production planning can result in effective and efficient utilisation of the available resources to the benefit of the unit.

Routing and scheduling:

Before taking up any production activity in the factory the small industrialist should check whether all the material and stores are available in the required quantities. This can effectively be done by checking the stores records. After ascertaining the availability of required material, a sequential plan
of operations is to be prepared. This list is called 'master route sheet'. This should contain:

(1) The route through which the material is to move.
(2) The operations to be performed.
(3) The time to be allowed for each operation.
(4) The number of pieces to be made.
(5) The department at which the operations are to be performed and the machines to be used.
(6) Tools, jigs, fixtures required for each operation and
(7) Material requirements for each operation.

(Specifications, quality etc.)

This sequential plan can conveniently be used as a guide for the production process. In case of units having continuous production, this is to be done only once when the production is standardised the route repeats itself for further production operations. In the case of job or servicing units the 'master route sheet' is to be prepared separately for each job to suit individual requirements. When the master route sheet gives a detailed description of each job by operations and the exact time and date of starting and finishing them, it is called master Schedule.

Thus, a master schedule indicates:

(1) The details of operations to be carried out in respect of a job and,
(2) The dates on which the individual operations are to be taken up and completed.

Similarly a detailed routing and scheduling sheet can be prepared for each machine to cross check the master schedule. The detailed route schedule will be on display at each machine for the use of the operator. The master schedule will be displayed at the shop entrance for the guidance of all the workers and supervisors. When the master schedule and the detailed route schedule are ready, the first phase of production planning and control is completed. This is called planning the work. The next step is to 'work the plan'. This is called production control.

4. **CONTROL:**

Production control refers to the organisation of man power, material and machines. It ensures efficient control over production and brings out maximum production at the minimum cost. Thus, the main objective of production is reducing costs by making best use of men, machinery and materials. Production planning is futile unless a control system is set up so that the plans are implemented effectively. Following are the various steps in production control.
Actual control starts with despatching. It is concerned with the starting of the production process. Based on the Master route already prepared, necessary orders or instructions will be given to the workers to start work. Hence despatching is defined as, "Release of orders and instructions for the starting of production for any item in accordance with Route Sheets and schedule charts." Following are the important functions of despatching:

1. After despatching is done, required materials are moved from stores to machines and from operation to operation.
2. Authorizes to take work in hand as per schedule.
3. Distributes machine loading and schedule charts, route sheets and other necessary instructions and forms.
4. Issues inspection orders, clearly stating the type of the inspection required at various stages.
5. Issues instructions to tools section for issuing proper tools, jigs and fixtures and other essential articles.

The following forms are used in despatching:
(a) Work order; (b) time cards; (c) Inspection tickets; (d) Tool and equipment tickets etc.
When the operations are started:

1. the materials are supplied to the workers according to work orders,
2. the required tools are supplied as per the tool and equipment tickets,
3. products in process are moved according to the instructions in the work orders,
4. the operations are carried out as indicated in the time cards and
5. work done is inspected, products are tied "O.K."/'Inspected' slips.

At all these stages the work order will be moving along with the product in process. When the processing is over and inspection is done the product is sent to the godown for stocking. Material in balance, if any, will be returned to stores with the material returns slip. The work order will be marked as 'completed' and sent for record.

In the case of a small unit the work order can be prepared and oral instructions can be issued to workers easily. This will reduce the administrative costs also. In case the production process is lengthy and complicated all the forms mentioned above may have to be used effectively.

It was observed during this study that excluding some units in Electrical and Electronic industry
(Code No. 36) and a few units in Rubber and Plastics (Code No. 3C), all others are not following any production plan or control.

(b) **Follow-up:**

It is known that despatching is a signal to start the work. *Follow-up is the function of recording the progress of work in the shop and taking remedial action in those cases where the work is not completed on schedule.*

After despatching production orders to various departments, it is necessary to regulate the progress of work throughout till they are completed. For this purpose a follow-up action is to be taken. This is the last step in production management.

The function of follow-up personnel is to report the progress of work in each department or section daily and to investigate the causes for deviation from the planned performance. Thus, the follow-up action not only ensures that the production is performed as per the schedule but also tries to improve it.

Generally, the follow-up involves the following:

(a) Material issue is expedited to enable the worker to start the operations as per the schedule.

(6) BAUMBACK and LAWLER: op. cit. p. 460-461.
(b) Issue of tools and jigs to workers is hastened to avoid waste of time.
(c) The worker is briefed of the operations to avoid delay in setting the machine ready for production.
(d) Arrangements are made to move the material in process from one machine to another or from one department to the other and to minimum loss of time in internal movements.

In this way production management consists of
(a) selection of a suitable location,
(b) erecting factory sheds/buildings and machines in accordance with a convenient layout,
(c) planning the production process so that the process is completed at the minimum possible time, and
(d) controlling the production through despatching and follow-up.

PRACTICES IN SMALL SECTOR:

It is observed that only a few small units have fullfledged production management systems. Lack of such a system results in:

(a) loss of material in transit,
(b) loss of production hours due to delay in erratic movement of labour and material,
(c) production delays and loss of customers due to delay in supplies,
(d) locking up of working capital in the form of over stocking of material,
(e) production hold-ups due to lack of material,
(f) manufacture of inferior products.

Many small entrepreneurs adduce the following reasons for not practising production management techniques:

(1) Lack of finance.
(2) Non-availability of required personnel.
(3) Limited market area for the product.
(4) Some feel that the unit being a small one introduction of these techniques are not required.
(5) Many are not willing to share responsibilities with the workers.
(6) It would be too expensive and hence introduction of production management may increase production costs.

All these may not be true. In fact many may be out of the psychological fears of the entrepreneurs. By introducing these techniques systematically, the small units can:

(1) improve production as there will be saving in time due to systematic planning and control.
(2) minimise material loss,
(3) make better use of men and machinery,
(4) improve the market for the product by
honouring delivery schedules,
(5) build up good will of the concern by
manufacturing high quality products,
(6) reduce production costs by systematising
production process.

The fear that introducing production management
will affect the financial position of the unit may be
more imaginary than real. No doubt, initially, as like
any other system, it may be a little expensive.
But the long run benefits will more than offset the
initial high cost. A logical approach to the process
of production will itself give him the anticipated
results. Following steps may be necessary to introduce
elements of production management in a small unit.

1. Location: While selecting the site, the
entrepreneurs should not give more weightage to their
personal comforts. They must think of the prosperity
of the unit. Thus due consideration is to be given to
various aspects affecting location before a decision
is taken.

2. Layout: A well drawn layout will solve
a major problem in planning production. Layout must
make use of all the facilities available in the site. At the same time it must aim at minimising the labour and material movement within the factory. Proper attention is to be given to the location of stores as material handling is an important aspect of production planning. Thus a convenient layout will reduce the production time and increase productivity.

At present the industrialists are preparing only rough sketches of the layouts to submit to the licensing authorities. If the same is prepared in a scientific way and implemented, they can serve more useful purpose.

3. Planning and Control: In majority units the entrepreneur himself is planning the production process without consulting the technical personnel and other workers. Such a plan fails to achieve the objectives set. It is very much necessary that before finalising the production plan the industrialist must obtain the expert opinion. He should also be flexible in his decisions and give weightage to the suggestions of workers, if they are practicable. This action will boost the workers' morale and help the unit in the long run.

It was also noticed that the small industrialist is shouldering all the responsibilities of control and follow up to himself. We cannot expect one person
to be an expert in all the fields like Production Management, Material Management, Financial Management, Personnel Management and Marketing Management, etc. Perhaps this combination may be one of the reasons for the failure of many units. The workers should also be entrusted with some responsibilities. One of the senior workers may be entrusted with the work of control and follow-up. By doing so, the entrepreneur can win the confidence of the workers. The person-in-charge of control will have close contact with his co-workers and can make them work efficiently.

In this way, a small industrialist can introduce the techniques of production management into his unit at the least cost.

CONCLUSION:

Production Management consists of decisions regarding (1) location (2) layout (3) planning, control and follow-up. These decisions can influence the success or failure of a unit irrespective of its size. Particularly in the case of a small unit the decisions can
SUMMARY:

Production management is the process of 'effectively planning, co-ordinating and controlling production'. This consists of

(1) plant location,
(2) layout of factory buildings and machinery,
(3) planning production process and
(4) controlling production.

Every industrialist must look into the following factors while determining location:

(1) Availability of raw material.
(2) Availability of infrastructural facilities.
(3) Availability of cheap and efficient labour.
(4) Market facilities, etc.

After selecting a location, proper layout is to be prepared. 'A best layout will show that it saves the floor space, shortens the travel of materials, increase production and reduces cost by utilising labour more efficiently.'

Next step in production management is planning. This involves the organisation and planning of manufacturing process systematically through routing and scheduling. After planning, effective control is to be introduced into the system to make the plan work efficiently. Control refers to organisation of
man power, material and machines. Control consists of despatching and follow-up.

Production Management is not being practised in majority of small units due to reasons like
(1) lack of finance,
(2) limited market for the product,
(3) lack of personnel etc.

This is resulting in
(a) material loss,
(b) production delays,
(c) production of inferior goods and
(d) increased production costs.

This system can gainfully be introduced in small units with least financial commitment if a logical approach is given to start the unit.
CHAPTER X

SMALL INDUSTRY THROUGH PLAN PERIODS
CHAPTER X

SMALL INDUSTRY THROUGH PLAN PERIODS.

Introduction:

One of the earliest decisions taken by the Government of India was to identify traditional small industries and crafts which deserved developmental assistance and to establish separate programmes and organisations for their promotion. Thus there are separate programmes and institutions for the development of handlooms, handicrafts, coir, khadi and village industries, sericulture, etc., each one designed to meet the special needs of the group concerned. Progressive small units have been grouped separately for promotional and developmental assistance and separate programmes and institutions have been devised for this purpose during the First Five Year plan. This clear distinction between non-traditional and traditional units in the formulation and implementation of development programmes can be described as one of the basic causes of the success of the Indian programmes. Progress of Small Scale Sector under different Five Year/Annual Plans is discussed in detail in the following pages.
Development, improvement and growth of small industry, prior to 1951 had been an unplanned process lacking efficiency and stability. The Central Government, having felt the magnitude of the problem, took up the issue with all seriousness. As a first step, programmes for a few selected industries, such as, 'the manufacture of woollen and sports goods, agricultural implements, brassware and bell metal and cycle parts' (1) were prepared in consultation with the States concerned. To finance approved programmes and to afford a fair measurement of assistance to the States the plan contained an outlay of ₹.15 crores.

Identification of small units:

For the purpose of identification and assistance small units were divided into three types:

(1) Individual units:

Industries with small scale production and having certain advantages, viz., manufacture of locks and padlocks, wax candles, buttons, chappals and badges etc. These are the industries that could be

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(1) FIRST FIVE YEAR PLAN - 1953, Government of India (Summary) p.146.
run individually for facilitating sale and marketing and the financing of production.

(2) Processing units:

Industries in which small scale production goes on with manufacture of certain parts, or with certain stages of production in which the predominant role is played by a large scale industry. E.g., manufacture of cycle parts, electrical goods, cutlery, pottery and agricultural implements.

It was thought that there can be development in these industries 'only by the reservation of spheres of activity supported by considerable assistance in finance organisation and training on the part of the Central and State Government.' (2)

(3) Competing Units:

Small industries which are to compete with a corresponding large scale industry are grouped under this category. These industries are open for severe competition from large scale sector like, handloom industry. It was thought that a common production programme should be applied to different industries

(2) Ibid: p. 147
in accordance with the nature of each such industry. Thus complete protection is given to these industries.

**INCREASING THE DEMAND FOR PRODUCTS OF SMALL SCALE INDUSTRIES:**

**Stores Purchase:**

It was also felt that the demand for the products of small scale industries can be deliberately developed by (i) stores purchase and (ii) import substitution programme. All State Governments are directed to prefer purchasing goods produced by small industries provided quality, delivery date etc., are agreeable. They are also asked to prefer products offered for sale through a co-operative society or an agency approved by the Central Government.

**Import substitution programme:**

In order to increase the field for small scale operations, it is suggested that panels of technicians and businessmen in different trades should examine how far, through manufacture by cottage and small scale industries, requirements now met by imports can be replaced and at what stages.

**Relation with basic industry:**

Finally it is pointed out that the growth of small industries which need skill, training and power is related to the development of basic industry, including the manufacture of machinery.
The advance of technological education is also a material factor in the progress of small industries mentioned above. (3)

**Improving techniques:**

For improving the technique of small industries of the modern type it is suggested that the Central Government in consultation with the State Governments should arrange for the opening of special research sections in research institutes associated with large-scale industries.

To finance these developments the need to set up a separate Industrial Finance Corporation was also stressed in the First Plan.

**Financial outlay:**

Expenditure allocated (targets) to the development of village and small industries during the First Plan is given below:

(3) Ibid: p.36
TABLE 105

TABLE SHOWING FINANCIAL ALLOCATIONS TO VILLAGE AND SMALL SCALE SECTOR DURING FIRST PLAN

<table>
<thead>
<tr>
<th>Estimated Expenditure 1951-56 Rs. Crores</th>
<th>Percentages in total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Handloom</td>
<td>12.2</td>
</tr>
<tr>
<td>Khadi</td>
<td>12.3</td>
</tr>
<tr>
<td>Village Industries</td>
<td>2.9</td>
</tr>
<tr>
<td>Small Scale Industries</td>
<td>4.4</td>
</tr>
<tr>
<td>Handicrafts</td>
<td>0.82</td>
</tr>
<tr>
<td>Silk and sericulture</td>
<td>0.65</td>
</tr>
<tr>
<td>Coir</td>
<td>0.30</td>
</tr>
<tr>
<td>TOTAL</td>
<td>33.57</td>
</tr>
</tbody>
</table>

Source: First Plan Progress Report.

During the First Plan, out of a total outlay of 2378 crores only 33.57 (1.4%) were allocated to Village and Small Scale Sector. This meagre allocation may be attributed to a major emphasis laid on agricultural development.

Out of the total (33.57 crores) allocations to this sector the share of small scale industries was only 4.4 crores (13.10%). A major share was given to Khadi (36.63%) and Handloom (36.4%) industries.
Progress in First Plan:

During the plan an attempt was made to set out the lines along which development programmes for village and small industries could be undertaken as part of national plan. The Central Government accepted to provide finance for approved programmes and to afford a fair measure of assistance to the States.

Besides a network of six organisations had been brought into existence during this period viz.,

1. The All India Khadi and Village Industries Board,
2. The All India Handicrafts Board,
3. The All India Handloom Board,
4. The Small Scale Industries Board,
5. The Coir Board and
6. The Silk Board.

Of these the Coir and Silk Boards were established on a statutory basis. The Central Government also provided substantial funds for the development of this sector. Greater attention on the part of the Central and State Governments and the expanding activities of the All India Boards have increased production and employment in a number of industries.

The National Small Industries Corporation was established in 1955, in order to improve the marketability of the products of small units.
The Government accepted in principle the recommendations of Stores Purchase Committee to reserve certain class of stores to be exclusively purchased from Village and Small industries.

In order to improve financial assistance to small industries twelve State Financial Corporations were established between 1951-56. At present, there are eighteen Financial Corporations working in different States.

During this period, procedures governing the administration of State Aid to Industries Act were also liberalised.

Four Regional Small Industries Service Institutes were started with a number of branches to provide technical services and advice and assistance to give phillip to the Small Scale Sector.

**Common Production Programme:**

During this period the principle of common production programmes for related large and small scale industries were recommended. The possible elements of a Common Production Programme were (4) stated to be:

(4) SECOND FIVE YEAR PLAN: (Government of India) pp.430-431.
(1) Reservation of spheres of production
(2) non-expansion of capacity in large scale industry
(3) imposition of a cess or excise on products of large-scale industries and
(4) positive measures for the supply of raw materials equipment and technical and financial assistance to the small units.

One or more of these elements have been adopted as the basis of measures taken for the development of small industries. All applications for substantial expansion of the existing large units or for the establishment of new large units are examined in the light of their possible effects on cottage and small scale sector.

Overall progress, during the plan period, has been uneven both as between different industries and as between different regions and States.

SECOND FIVE YEAR PLAN: 1956-1961:

The Second Plan sought to rebuild rural India and to lay the foundations of industrial progress. It also aimed at securing to the greatest extent, feasible opportunities for weaker and unprivileged sections of the people to attain balanced regional development. The plan was aimed at providing for
a larger increase in production, investment and in employment. (5)

Farve Committee:

The programme for the development of village and small industries during the Second Plan period was considerably larger than in the first. Programmes for the Plan and problems connected with their implementation have been reviewed by a Committee—The Village and Small Scale Industries (Second Five Year Plan) Committee, commonly known as the Farve Committee, which was appointed by the Planning Commission in June 1955. The Committee submitted its report in October 1955.

In making its proposals the Committee kept three principal aims in view, namely, (6)

(1) to avoid as far as possible further technological unemployment such as occurs specially in the traditional village industries;

(2) to provide for as large a measure of increased employment as possible through different village and small industries; and

(3) to provide the basis for the structure of an essentially decentralised society and also for progressive economic development at a fairly rapid rate.

(6) Ibid: p.452
Industrial Policy Resolution 1956:

This policy was based on the recommendations of the Karve Committee. In the policy it was stated that lack of technical and financial assistance and suitable working accommodation and inadequacy of facilities for repair and maintenance are among the serious handicaps of small producers. To meet these deficiencies the policy advocated starting of industrial estates and rural community workshops. Organisation of industrial co-operatives was also encouraged. The policy directed the State Governments to attend to the development of cottage, village and small scale industries constantly.

Progress in Second Plan Period:

Based on the recommendations of the Karve Committee, Industrial Policy Resolution 1956 and the Common Production Programme suggested during the First Plan Period, the second plan encouraged trade associations* and industrial co-operatives on an experimental basis.

Stores Purchase Policy revised:

In this period the Stores Purchase procedure of the First Plan were revised so that the small units

* A trade association is a common form of organisation set up, for either purchase of raw materials or sale of finished products or both, in the small scale sector.
are assured of definite opportunities in the context of Government procurement and are thus able to utilise their potential capabilities.

**Industrial Estates:**

Kerve Committee recommended establishment of Industrial Estates. The idea of industrial estate was borrowed from United Kingdom. According to the Committee, an industrial estate must represent all the facets of our economic, social and industrial life. 'The diverse methods of technology which the mind of a worker can conceive, perceive and adopt in life and grow must be available in an industrial estate. There should be various other facilities, such as raw material depots, transport, banking, telephones, postal services, insurance, warehousing, railway sidings and various other means of communications. The industrial estate should be an institution by itself.'(7)

The Committee expressed the view that industrial estates should be located in such a way that they do not encourage further concentration of population in urban centres. It was suggested to start

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(7) MANUBHAI SHAH--Productivity - Vol.3 Nos.5 & 6 August, September, October 1962 p.299.
smaller estates so that they are developed in near
towns of comparatively smaller size. About 60
industrial estates were completed during the Second
Plan period.

Role of State Government:

The Second Plan recommended that the task of
developing village and small industries is to be taken
up by the States at the district and area level along
with other development programmes.

It was felt that the available organisation,
technical and administrative is weak at the State
level. So, they recommended self-contained depart­
ments at State level to look after the problems of
village and small industries. At the district level,
it was suggested to have at least one wholetime officer
to implement development programmes within the district.
Accordingly officers were appointed at District and
Block levels.

Thus the Second Plan said that the State Govern­
ments are to build for themselves an efficient orga­
nisation for village and small industries which can
operate directly in small towns and in rural areas.

(8) Second Five Year Plan; Ibid. p.453.
Co-ordination Committee:

The village and small industries committee recommended the establishment of a separate Ministry at the centre for Village and Small Scale industries and of a Co-ordination Committee. Based on this, steps were taken to set up the Central Co-ordination Committee for small industries consisting of the representatives of the Ministries concerned and the Chairman of the All India Boards and the Khadi and Village Industries Commission. Co-ordination Committees were also constituted in most of the States.

Thus a three-tier organisation was developed by the Ministry of Commerce and Industry at the Centre.

Progress in Second Plan:

During the plan, the scale of assistance for purposes like credit facilities, training, technical advice, etc., was considerably enlarged; The total (All Sectors) outlay of the plan was Rs. 4,672 crores. Of this Rs. 185 crores (3.75%) were allocated to the Village and Small Scale sector. The break up of this allocation are given below:

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### TABLE 106
SECOND PLAN: ALLOCATIONS TO VILLAGE AND SMALL SCALE SECTOR.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Estimated expenditure (Rs. crores)</th>
<th>Percentage to total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Handloom Industry</td>
<td>29.7</td>
<td>16.50</td>
</tr>
<tr>
<td>Powerloom in the handloom sector</td>
<td>2.00</td>
<td>1.11</td>
</tr>
<tr>
<td>Khadi and village industries</td>
<td>82.4</td>
<td>45.77</td>
</tr>
<tr>
<td>Sericulture</td>
<td>3.1</td>
<td>1.72</td>
</tr>
<tr>
<td>Coir Industry</td>
<td>2.0</td>
<td>1.11</td>
</tr>
<tr>
<td>Handicrafts</td>
<td>4.8</td>
<td>2.69</td>
</tr>
<tr>
<td>Small Scale Industries</td>
<td>44.4</td>
<td></td>
</tr>
<tr>
<td>Industrial Estates</td>
<td>11.6</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>112.0</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: III Five Year Plan: p.438

Out of the targeted amount of Rs. 180.0 crores, an amount of Rs. 56.0 crores (31.11%) was earmarked to small industries and Industrial Estates. The actual expenditure during the plan under Village and Small Scale Sector was Rs. 157 crores.

The over-all progress of small industries during the second plan period was quite impressive. Many small industries like machine tools, sewing machines, electric fans and motors, bicycles, builders hardware and hand tools have expanded considerably. The increase in production of these units was as much as 25% to 50% per annum.
The programme of industrial estates was also successful. By 1960-61 about 60 industrial estates were completed of which 52 started functioning. During this period, the programme for small scale industries provided full time employment to about 3 lakhs persons. (10)

**Improvement in credit facilities:**

In course of the Second Plan credit guarantee Scheme was introduced to improve credit facilities to small industries. Under this scheme, the Central Government shares, the risk on loans to small industries by the Commercial Banks and other financial institutions.

**Training:**

With the help of survey reports prepared by the Small Industries Service Institutes a number of training programmes were prepared. These included training in business management, engineering and non-engineering trades. A programme for training district industries officers and block level extension officers was also drafted. The National Small Industries Corporation introduced a scheme to supply machinery to small industries, on hire-purchase. Items like

(10) *Third Five Year Plan: Government of India: p.431*
The main objectives in implementing programmes for Village and Small Industries in the Third Plan are:\(^{(11)}\)

(i) to improve the productivity of the worker and reduce production costs by placing relatively greater emphasis on positive forms of assistance such as improvement of skill, supply of technical advice, better equipment and credit etc.
(ii) to reduce progressively the role of subsidies, sales rebates and sheltered markets,
(iii) to promote the growth of industries in rural areas and small towns,
(iv) to promote the development of small scale industries as ancillaries to large industries and
(v) to organise artisans and craftsmen on co-operative lines.

The plan to achieve the above objectives through the following policies:

Policies:

(1) to enlarge the training facilities for meeting the requirements of technical and managerial personnel,

(2) to provide organised credit facilities on a larger scale with reasonable terms and with the minimum of procedural delays, to be made available from normal banking and financial institutions,

(3) to encourage the growth of industries in rural areas and small towns as well as in less developed areas leaving a marked industrial potential,

(4) to identify areas where facilities will be available and provide assistance in an integrated manner,

(5) to encourage schemes for linking up the production of small scale units with those large industrial projects in both the public and private sectors so as to develop small scale units as ancillaries,

(6) to encourage formation of industrial co-operatives, and
(7) to secure co-ordination among the various Boards and agencies concerned with the implementation of the programmes particularly at the field level.

**Improvement of skill and productivity:**

For meeting the requirements of technical and managerial personnel in the field of village and small industries, training facilities were proposed to be considerably enlarged. An All India Institute was also proposed to be set up to provide facilities for training in industrial extension techniques.

In all village and small industries programmes, emphasis has been laid on the introduction of improved tools and equipment. Steps were taken to expand the schemes for supply of machines on hire-purchase, to benefit a large number of small industrialists and co-operatives.

It was decided to give special attention to research for developing improved tools and equipment, processes of manufacture, designs, etc.

**Credit and finance:**

Credit facilities, which are an essential requirement of all village and small industries, have been provided on a large scale to be made available on reasonable terms. The credit Guarantee
Scheme started in the Second Plan was continued in the Third Plan also.

Role of subsidies, sales rebates, etc:

The progressive enlargement of programmes of positive assistance were expected to make it possible to reduce the role of subsidies, sales rebates and sheltered markets in the Third Plan. Rebates on sales have been reviewed with the object of replacing them, as far as possible, by management grants.

Industrial development in rural areas and small towns:

The Plan encouraged development of small industries in rural areas and small towns having a marked industrial potential. As a first step, areas having basic facilities were identified and 300 new industrial estates were proposed to be set up in or near small and medium towns. Of the proposed total number of industrial estates 283 estates were completed and 198 started working during the plan period.

Development of small industries as ancillaries:

An important scheme launched during II plan was linking up of the production of small units located in a new industrial estate at Bangalore with the production of a large project in the public sector, Hindusthan Machine Tools Limited. It was proposed to encourage similar schemes for some of the
other projects in both the public and private sectors. (12)

**Industrial Co-operatives:**

In the Third Plan Period it was proposed to encourage industrial co-operatives in the fields where they exist already, in other areas steps were proposed to be taken to encourage the promotion of industrial co-operatives. The main steps taken include:

1. provision of financial assistance to cover the expenditure on managerial and supervisory staff for a limited period,
2. subsidisation of the rate of interest charged by the Central Cooperative Financing agencies to the primary co-operative societies,
3. expansion of facilities for the training of staff particularly at the middle level and
4. strengthening of the staff in the State Departments of industries or cooperation dealing with industrial co-operatives.

**Financial outlay:**

Funds allocated (targets) to the development of Village and Small industries during the Third Plan is given below:

(12) Ibid: p.436
### Table 107

**Third Plan: Allocations to Village and Small Scale Sector**

<table>
<thead>
<tr>
<th>Industry</th>
<th>States and Union Territories</th>
<th>Centre Rs. crores</th>
<th>Total Rs. crores</th>
<th>Percentage to Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Handloom Industry</td>
<td>31.0</td>
<td>3.0</td>
<td>34.0</td>
<td>12.88</td>
</tr>
<tr>
<td>Powerlooms in handloom sector</td>
<td>-</td>
<td>4.0</td>
<td>4.0</td>
<td>1.51</td>
</tr>
<tr>
<td>Khadi-traditional</td>
<td></td>
<td>37.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amber</td>
<td>3.4</td>
<td>32.0</td>
<td>92.4</td>
<td>35.00</td>
</tr>
<tr>
<td>Village Industries</td>
<td>20.0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sericulture</td>
<td>5.5</td>
<td>1.5</td>
<td>7.0</td>
<td>2.65</td>
</tr>
<tr>
<td>Cair industry</td>
<td>2.4</td>
<td>0.8</td>
<td>3.2</td>
<td>1.21</td>
</tr>
<tr>
<td>Handicrafts</td>
<td>6.1</td>
<td>2.5</td>
<td>8.6</td>
<td>3.26</td>
</tr>
<tr>
<td>Small Scale Industries</td>
<td>62.6</td>
<td>22.0</td>
<td>84.6</td>
<td>32.04</td>
</tr>
<tr>
<td>Industrial Estates</td>
<td>30.2</td>
<td>-</td>
<td>30.2</td>
<td>11.45</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>141.2</strong></td>
<td><strong>122.8</strong></td>
<td><strong>264.0</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Source: Third Five Year Plan: p. 436

Out of the total plan outlay of Rs. 7500 crores (targets) an amount of Rs. 264 crores (3.52%) was allocated to village and small sector. Of this, Rs. 114.8 crores (43.49%) were earmarked to the development of Small Scale Industries and Industrial Estates.

In addition to the outlay indicated above, there was a provision of about Rs. 20 crores, made for the
development of small industries in the programmes of community development.

Progress:

The main objectives of the small industries programmes were to improve the productivity of the worker, to enlarge the availability of institutional finance and to pay special attention to the growth of small industries in rural areas and small towns. The progress was encouraging during the first two years of the Third Plan, but then slowed down for various reasons including the shortage of raw materials following the hostilities of 1962 and 1965. (13)

A Committee was set up in September 1964 to make recommendations for securing equitable distribution and proper utilisation of available scarce raw materials among the larger, medium and small scale industries. The Committee recommended for distribution of scarce raw materials to all units without reference to the sector, subject only to the overall national priorities of their end products. The recommendation was accepted and steps were taken to collect the data required for implementation of the same.

(13) Fourth Five Year Plan (Government of India): p-218
Collection of statistical data:

The Small Industries Development Organisation (SIDO) took initiative to prepare a list of small units in India. This is one of the steps taken in the right direction towards the provision of basic statistical information which is essential for studying the impact of programmes in operation and for preparing new plans for the future.

Rural Industries Project:

During this period a centrally sponsored scheme for rural development called Rural Industries Project was taken up in different areas all over the country.

Thus during the Third Five Year Plan a lot many schemes were formulated and implemented for the development of small sector while continuing the schemes initiated in the Second Plan.

ANNUAL PLANS: 1966-67 and 1967-68:

Progress: 1966-67:

During the 1966-67 different programmes for village and small industries were planned; the content of the programmes were considerably smaller than in the preceding years.
Outlay:

On the basis of actual expenditure in the public sector and investment in the private sector in 1966-67, it was roughly estimated that additional whole-time employment had been created for about 1.4 lakhs persons. This compares favourably with the annual average achieved during the Third Plan of about 1.25 lakh persons. There were also increases in output. However, the progress made towards dispersal of industries was very slow.

The actual expenditure in 1966-67 was over Rs.43 crores compared to about 54 crores in 1965-66.\(^{(14)}\)

The reason for the decline was the lower priority accorded to this sector as a whole by most of the State Governments, owing partly to paucity of financial resources and partly to the earmarking of the bulk of the limited resources to other heads of development.

Credit and Finance:

Under the State Aid to Industries Act the State Government and the Administrations of Union Territories had disbursed loans amounting to about Rs.3.7 crores in 1965-66. Total disbursements amount to the same level

during 1966-67. The State Financial Corporations sanctioned loans up to Rs.20.2 crores in 1966-67 and disbursed Rs.17.6 crores. Under the credit guarantee scheme of Reserve Bank of India, 14,544 guarantees were given amounting to Rs.53.1 crores during this year.

During this period small industries continued to face certain difficulties due to short supply of raw materials, credit and to some extent also due to competition from large scale industries in certain lines. However, the Central organisations and Industries Directorates at the State continued to provide assistance in different forms to the small scale sector.

Study Group;

A study group was set up towards the end of 1966-67 to examine the items considered suitable for production exclusively in the Small Scale Sector. Efforts were also continued to encourage promotion of smallscale industries as ancillaries to large industrial undertakings in the public as well as private sectors but the progress was not satisfactory. (15)

An important development during this year was the revision of the definition of small scale industry.

Industrial Estates:

The number of industrial estates raised from 458 in March 1966 to 486 by March 1967 providing employment for about 74,110 persons. The NSIC DGS & D continued to encourage the development of small units.

Progress 1967-68:

An outlay of Rs.43.55 crores was proposed originally for the development of village and small industries for 1967-68. Subsequently as a result of the revision of certain State Plans the plan outlay was revised to Rs.42.61 crores. As against this, the level of actual expenditure reached in 1967-66 was Rs.43.82 crores. (16)

Credit and Finance:

Under the State Aid to Industries Act/Rules, the State Governments and administrations of Union Territories disbursed loans amounting to about Rs.3.56 crores in 1967-68. The total loans sanctioned by the State Financial Corporations to small scale units as at the end of March 1968 stood at Rs.33.74 crores to 3806 applicants. The RBI issued 21,511 guarantees for loans amounting to Rs.100.92 crores during this year under its credit guarantee scheme. The RBI

continued to provide credit facilities to the State Co-operative Banks for financing working capital requirements of handloom weavers' co-operatives. (17)

To increase the flow of institutional credit to the small sector, the RBI introduced in February 1968, refinance facility to scheduled Commercial Banks and State Financial Corporations at concessional rates.

The number of small units registered increased from 113000 by the end of 1966 to over 125000 by the end of March 1968.

To boost exports Small Industries Service Institutes supplied information relating to overseas buyers and foreign markets to small units. Short-term courses on export techniques were also conducted for the benefit of small entrepreneurs.

A coordination Committee was appointed to coordinate the programmes of the various agencies departments and Ministries engaged in the development of Agro-industries in the small sector.

FOURTH FIVE YEAR PLAN: 1969-74;
Objectives:

The objectives of the programme in the Fourth Plan are:

(17) Ibid: p.55
(1) to improve progressively the production techniques of small industries so as to enable them to produce quality goods and to bring them to a viable level;

(2) to promote decentralisation and dispersal of industries and

(3) to promote Agro-based industries.

The main thrust as regards small industries was on: fuller utilisation of the capacity already established, intensive development of selected industries including ancillaries and industrial co-operatives, and subject to criteria of feasibility, promotion of the industries in semi-urban, rural and backward areas. (18)

A phased programme of modernisation of machinery and equipment, initially, for a group of selected industries such as machine tools, foundry and re-rolling was also proposed during this period.

The plan aimed at achieving the above objectives through

(1) improvement of skills in small scale sector

(2) providing a combination of incentives and distinguishing for securing decentralisation and dispersal of small industries and

(Government of India, New Delhi)
(3) fiscal and other measures that are required to enable the small units to stand in competition with large units.

**Dispersal Programme:**

During this period, a greater emphasis was laid on dispersal of industries. To achieve this, a variety of positive measures of assistance were extended. These measures include liberal credit facilities, adequate supply of scarce raw materials, provision of technical assistance, tax concessions and differential excise duties.

For promoting the programmes outlined above, the **Small Scale Industries Development Organisation** and the **Small Industries Service Institutes** were strengthened with technical staff and provided with requisite equipment. The **State Industries Directorate** and **Small Industries Corporations** were also strengthened. The scheme for supply of machines on hire-purchase system by the **National Small Industries Corporation** and **State Small Industries Corporations** was also expanded.

**Industrial Estates:**

The programme of industrial estates was given a priority during the Fourth Plan. Setting up of estates with factory sheds was also taken up in small towns.
and promising rural and backward areas. Establishment of co-operative industrial estates was also encouraged.

**Financial Outlay:**

Funds allocated (Provisional) to the development of village and small scale sector during Fourth Plan is given below:

<table>
<thead>
<tr>
<th>Industry</th>
<th>Amount (a)</th>
<th>Percentage to the total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small Scale Industries</td>
<td>101.74</td>
<td>34.52</td>
</tr>
<tr>
<td>Industrial Estates</td>
<td>18.15</td>
<td>6.16</td>
</tr>
<tr>
<td>Handloom Industry &amp; Powerloom</td>
<td>42.98</td>
<td>14.58</td>
</tr>
<tr>
<td>Khadi and Village Industries</td>
<td>96.43</td>
<td>32.72</td>
</tr>
<tr>
<td>Sericulture</td>
<td>11.37</td>
<td>3.86</td>
</tr>
<tr>
<td>Sericulture</td>
<td>4.42</td>
<td>1.50</td>
</tr>
<tr>
<td>Coir industry</td>
<td>14.52</td>
<td>4.93</td>
</tr>
<tr>
<td>Handicrafts</td>
<td>4.50*</td>
<td>1.53</td>
</tr>
<tr>
<td>Rural Industries Project</td>
<td>0.60*</td>
<td>0.20</td>
</tr>
<tr>
<td>Collection of Statistics</td>
<td><strong>394.71</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

(a) Total = Centre (share) * centrally sponsored + States and Union Territories.

* centrally sponsored schemes.

Source: Fourth Five Year Plan: (draft) p. 223.

An amount of \( \text{Rs.} \ 294.71 \) crores was allocated to the Village and Small Scale Sector in the Fourth Plan. This allocation was revised to \( \text{Rs.} \ 251.01 \) crores subsequently. Finally, out of the total expenditure of \( \text{Rs.} \ 15,779 \) crores
the amount spent towards the village and small industries sector was Rs. 245 crores (1.54% to total).

**Progress:**

The progress made by this sector during the Fourth Plan has been rapid though the pace of growth varied from State to State. But some of the aims proposed in the plan could not be achieved due to shortage of certain raw materials, statistical data, credit facilities, industrial extension services and marketing facilities.

There was also delay in sanctioning of funds and provision of other arrangements to these industries. Shortage of power adversely affected the production of a good number of small industries. (19)

**Measures taken:**

In order to overcome the problems mentioned above, a number of measures have been taken in addition to a policy reorientation during the plan period. Some of them are:

1. Progressive increase in allocations of imported and indigenous raw materials in short supply.
2. Reservation of additional items for exclusive development in the Small Scale Sector.
3. Provision of concessions and subsidies for promotion of small units.

(19) Draft Fifth Five Year Plan: 1974-79: (Govt. of India) p.160.
(4) Implementation of a separate scheme for assisting educated and technically qualified persons to set up small units etc. There was an increasing response to the incentives offered for the promotion of small units in selected backward areas.

Credit supply increased:

The credit supply to small scale sector was also increased from Rs.286 crores in June 1969 to Rs.645 crores by December 1972. The National Small Industries Corporation supplied machines worth Rs.20.8 crores on hire purchase.

Increase in number of units:

The number of units registered on a voluntary basis with the Industries Directorates of the State and Union Territories increased from roughly 2 lakhs in 1969 to about 3.18 lakhs in 1972. The employment in these units was estimated to be at 41.4 lakh persons.

Credit Guarantee Scheme extended:

The Credit Guarantee Scheme of RBI was further extended and liberalised. A total of 163 credit institutions, including Commercial Banks and the State Financial Corporation, had joined the scheme upto the end of 1972.
In this plan period consolidated guidelines were issued to public sector enterprises for encouraging and co-ordinating the development of ancillary units.

**Industrial Estates:**

During the Fourth Plan the number of completed estates increased from 285 in March 1969 to 401 by March 1972. Production also increased by Rs. 127 crores. The number of non-functioning sheds in the estates set up in the rural and semi-urban areas continued to be very high, largely due to their unsuitable location. *(20)*

**Trade delegation to Japan:**

The Government of India sent a trade delegation to Japan in the year 1969. Some of the recommendations of this delegation were given effect to in the Fifth Five Year Plan.

**FIFTH FIVE YEAR PLAN: 1974-79:**

*Strategy:* The broad strategy for the implementation of various development programmes relating to Village and Small Scale Industries was:

(i) development and promotion of entrepreneurship and provision of a 'package of consultancy

services so as to generate maximum opportunities for employment particularly self-employment.

(ii) facilitating fuller utilisation of the skill and equipment of the persons already engaged in different small industries;

(iii) progressively improving the production technique of small industries so as to bring them to a variable level;

(iv) promotion of small industrial units in selected 'growth centres' in semi-urban and rural areas including backward areas.

Measures taken:

Some of the more important measures taken for achieving the objectives of the Fifth Plan are briefly explained hereunder:

(i) Package of Consultancy Services:

It was felt essential that suitable agencies, at State, regional and if required at district levels are to be promoted to provide a 'package of consultancy services' to small entrepreneurs. These package services were expected to provide all facilities like technical advices, financial assistance etc., at one place and avoid the entrepreneurs meeting individual agencies from the pre-investment stage to the post-investment stage.
(ii) **Fuller utilisation of skills and production capacity:**

For maximum utilisation of skills and production of capacity, prompt and adequate availability of credit and scarce raw materials are essential. For this purpose provisions for 'seed' capital and 'margin' money, wherever necessary interest free loans, and subsidy have been provided for the central and State level corporations engaged in the promotion of small industries. Guidelines have been issued to Commercial Banks for ensuring prompt and adequate availability of finance. Provisions have been made in the State Plans to strengthen cooperatives so as to achieve regular supply of scarce raw materials to small scale sector.

(iii) **Technical improvements and Research:**

Provision has been made for strengthening the Industrial Extension Centres, expansion of training and common services facilities and establishment of testing centres. In addition, for the first time, the technological needs of traditional as well as modern small industries have been studied and specific schemes for research and development have been included in the central and State plans.
(iv) Dispersal:

Several specific schemes have also been included in the State Plans and Central programmes for expansion of industrial extension services in selected 'growth' centres in backward areas to achieve dispersal of industries. This is in addition to the development of small and medium industries including ancillaries in selected backward areas.

(v) Industrial Co-operatives:

Provision has been made in the State Plans for sanction of loans for share capital and interest payment for existing and new industrial co-operatives. The central programme also included certain schemes for promoting consultancy services, training and marketing and other assistance to industrial co-operatives.

(vi) Co-ordinating and monitoring:

To avoid overlapping and duplication of activities, suitable steps were taken for co-ordinating different programmes like Rural Industries Programme, Marketing Assistance, Collection of Statistical data etc.

(vii) Strengthening infrastructure:

The SIDO, SISI and Extension Centres were strengthened with technical staff and equipment.
New centres were also proposed to be started in selected backward areas. By opening testing centres indifferent places, the central institute of designs provided testing facilities to a large number of small units. Provision has been made to expand the equity base of NSIC so as to enable it to supply larger number of machines on hire purchase.

(viii) **Industrial Estates:**

In the State Plans, provision has been made for 'seed capital' and 'margin' money for the State Corporations to enable them to obtain institutional finance for establishment of Industrial Areas. Provision is also made for the construction of Industrial Estates and with factory buildings in growth centres. Besides techno-economical surveys were also undertaken for selection of suitable sites for the location of industrial estates. At present 600 Estates are working at different centres.

**Outlay:**

For the purpose of achieving the above schemes a total of ₹.611 crores were first allocated to the village and small scale sector in Fifth Plan. But the estimated expenditure under this head amounted to ₹.606 crores (1.5% to total of ₹.40641 crores) by the end of the plan period. In addition to the outlays above mentioned about ₹.1,050 crores were expected
to have been invested from private sources including banking and financial institutions. Thus an amount of Rs. 1,656 crores was made available for the development of small scale sector during the Fifth Plan.

Progress:

Progress during the Fifth Plan is not so encouraging due to many causes like the inflation and political disturbances. But during the period from June 1975 to December 1976, the progress appeared to be remarkable. The infrastructure required for the development of small industry was well built in this period to meet the challenge.

The plan could not be implemented during the period for which it is prepared completely due to the changes that took place at the political level in January 1977. The plan was scrapped by the Janatha Government in 1977, in its place the idea of rolling plan was brought in.

Definition revised:

An important event to be noted during the Fifth Plan is the revision of the definition of a small scale industry in 1975. Another aspect is the identification of Tiny Sector in the Industrial Policy of 1977.

District Industries Centre: (DIC).

At the State Industries Ministers Conference in April 1978 it was announced that 460 District Industries
Centres are to be established by 1981-82. Now of the 420 districts in the country 380 are covered by District Industries Centres Scheme. The DICs were started to provide all the facilities required to start a small industry under one roof. About one lakh entrepreneurs have so far been assisted under this scheme.

Non-availability of financial and other resources in time has inhibited development of the small sector. In this background progress in establishment of the DICs is viewed as an encouraging development.

With the assumption of office at the centre by the Congress (I) Government in 1980 January there was a doubt whether this scheme will be continued. But, it has been confirmed by the Union Minister for Industries that the DIC scheme was not being abandoned but would be modified to make it more effective.

**SIXTH FIVE YEAR PLAN: 1979-1983:**

The industrial strategy adopted in the plan aims at 'employing technologies which have a low capital output ratio, provided that production costs are not adversely affected to any significant extent'. This indicates that during the plan small units will be encouraged. This sector was included under the priority sector category in 1979. As a major contribution to the planned growth of employment, the small scale sector should receive high priority.
The development effort is expected to be mounted on many fronts in this period. Efforts are being made to provide marketing facilities to products of small sector through co-operatives. Steps are also being taken to enhance the provision of training, technical assistance and other facilities. Out of an outlay of Rs. 71,000 crores the share given to Village and Small Scale Sector is Rs. 1410 crores (revised estimates) i.e., (2.0%) in the Sixth Plan.

Overall progress 1951 to 1979:

Financial outlay in different plan periods:

The following table shows the amounts expanded/allocated in different plan periods in respect of Village and Small Scale Sector.

**TABLE 109**

<table>
<thead>
<tr>
<th>PLAN OUTLAYS FOR VILLAGE AND SMALL SCALE SECTOR</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(Rs. crores)</td>
<td>1st Plan</td>
<td>2nd Plan</td>
<td>3rd Plan</td>
<td>Annual Plans</td>
<td>4th Plan</td>
</tr>
<tr>
<td>1. Village &amp; Small industries</td>
<td>43</td>
<td>175</td>
<td>241</td>
<td>126</td>
<td>243</td>
</tr>
<tr>
<td>2. Total Plan outlay</td>
<td>1960</td>
<td>4672</td>
<td>8577</td>
<td>6625</td>
<td>15779</td>
</tr>
<tr>
<td>3. 1 as % of 2</td>
<td>2.19</td>
<td>3.75</td>
<td>2.8</td>
<td>1.90</td>
<td>1.54</td>
</tr>
</tbody>
</table>

*Target as shown in Revised Draft.*

Source: Table developed out of data collected.
SHARE OF SMALL SECTOR IN TOTAL PLAN OUTLAYS 1951-1983
The above table shows the share of plan outlays of village and small scale sector for the entire plan period. It can be observed that though there is gradual increase in the total allocations to this sector over the period in absolute figures from Rs.43 crores in the first plan to Rs.606 crores in the fifth plan and Rs.1410 crores in the Sixth Plan, the percentage share of the sector varying between 3.75 and 1.49. This is clear from the data available with us. This variance may be because of the lower priority accorded to this sector owing partly due to paucity of financial resources and partly to the earmarking of the bulk of the limited resources to other heads of development. (21) Average share of this sector is only 2.2% of plan outlays.

Growth of small industries:

As per a survey conducted the Small Industries Development Organisation in 1972 the following growth rates are indicated in various plan periods. (22)

<table>
<thead>
<tr>
<th>PLAN</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>First</td>
<td>5%</td>
</tr>
<tr>
<td>Second</td>
<td>12%</td>
</tr>
<tr>
<td>Third</td>
<td>19%</td>
</tr>
<tr>
<td>Fourth</td>
<td>35%</td>
</tr>
<tr>
<td>Fifth</td>
<td>NA</td>
</tr>
</tbody>
</table>

Source: Indian Finance. (22) N.A.: Not available.

(21) Annual Progress Report 1967 - p.69
As mentioned earlier, there is a gradual increase in the number of registered units under this sector. The number increased from 1,20,000 in 1966* to 5,00,000 by 1975* and to 7 lakhs by 1979. It is estimated that by 1989 the number of small units in India will be 14 lakhs. (23)

Similarly, there is also an increase in respect of employees in the sector. In the year 1954 only 1.96 lakhs people were working in the small sector. By 1966 this number rose to 29.3 lakhs. In 1975 it was 55 lakhs and in 1977-78 lakhs. It is expected that by 1989, 200 lakh people will be employed in the village and small scale sector.

There is also a significant increase in the total investment in the sector from Rs. 5.54 crores in 1966 to Rs. 2500 crores by 1979. It is anticipated that by 1989 the total investment in this sector will be Rs. 7000 crores.

On account of the increase in investment and employment, the production in this sector also shown

*In 1966, 1975 and 1980 the definition of a small scale unit was revised.
an increase from Rs.1187 crores in 1954 (prior to the definition of a small unit) to Rs.13,000 crores by 1979. The projected production by 1989 would be Rs.40,000 crores.

The above information is provided in Table 111.

### TABLE 111

**OVERALL PROGRESS OF SMALL SCALE INDUSTRIES**

(at different periods of revision of definition)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No.of Units registered</td>
<td>24079</td>
<td>120000</td>
<td>500000</td>
<td>700000</td>
<td>1400000</td>
</tr>
<tr>
<td>Employment (lakhs)</td>
<td>4.96</td>
<td>29.3</td>
<td>55</td>
<td>70</td>
<td>200</td>
</tr>
<tr>
<td>Fixed investment (Rs. crores)</td>
<td>N.A.</td>
<td>548</td>
<td>1500</td>
<td>2500</td>
<td>7000</td>
</tr>
<tr>
<td>Production (in Rs. crores)</td>
<td>1187</td>
<td>2954</td>
<td>11000</td>
<td>13000</td>
<td>40000</td>
</tr>
</tbody>
</table>

*Prior to the statutory definition of small industry.

Source: Table developed from data collected.
NUMBER OF REGISTERED SMALL UNITS

YEAR | NUMBER IN LAKHS
---|---
1954 | 0.24
1966 | 1.20
1975 | 5.00
1980 | 7.00
1989 | 14.00
NUMBER OF PERSONS EMPLOYED IN SMALL SECTOR

<table>
<thead>
<tr>
<th>YEAR</th>
<th>NUMBER</th>
<th>CLASS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1954</td>
<td>4.96</td>
<td></td>
</tr>
<tr>
<td>1966</td>
<td>29.3</td>
<td></td>
</tr>
<tr>
<td>1975</td>
<td>55</td>
<td></td>
</tr>
<tr>
<td>1980</td>
<td>70</td>
<td></td>
</tr>
<tr>
<td>1989</td>
<td>200</td>
<td></td>
</tr>
</tbody>
</table>

YEARS

NUMBER IN LAKHS

VALUES
A study of the effect during the above period is given below.

**TABLE 112**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Employees per Unit</strong></td>
<td>21</td>
<td>24</td>
<td>11</td>
<td>10</td>
<td>14</td>
</tr>
<tr>
<td><strong>Production (Ks.)</strong></td>
<td>49,296</td>
<td>2,46,166</td>
<td>2,20,000</td>
<td>1,85,714</td>
<td>2,85,714</td>
</tr>
<tr>
<td><strong>Fixed investment per unit (Rs.)</strong></td>
<td>N.A.</td>
<td>45,666</td>
<td>30,000</td>
<td>35,714</td>
<td>50,000</td>
</tr>
<tr>
<td><strong>Fixed investment per employee (Rs.)</strong></td>
<td>N.A.</td>
<td>1,092</td>
<td>2,717</td>
<td>3,571</td>
<td>3,500</td>
</tr>
<tr>
<td><strong>Production per employee (Rs.)</strong></td>
<td>2,347</td>
<td>10,081</td>
<td>20,000</td>
<td>18,571</td>
<td>20,000</td>
</tr>
</tbody>
</table>

Source: Data collected

N.A.: Not available.

As seen from the table, the number of employees per unit in 1954 was 21. In 1966 this increased to 24. By 1975 the number came down to 11 and 1979 it was only 10.

It is also observed that there is a decline in average fixed investment per unit. But there is an increase in the average fixed investment per worker from Rs. 1092 to 1966 to Rs. 3571 in 1979. There is also a significant increase in the productivity of an employee from Rs. 2347 to 20,000 between 1954 and 1979.
The following may be the reasons for the fluctuations observed:

(1) The upward revisions in respect of investment ceiling in the definition of a small unit in different periods might have attracted _smaller_ units with comparatively higher investment resulting in the increase in average fixed investment per unit.

(2) The increase in the number of units may be due to the presence of many dormant units in the list. These units are promoted only to obtain all the concessions available to small units. They produce nothing as they are merely 'Ghost units'. There will be no employment in these units. Presence of such units increases the number of units and reduces the average number of workers per unit.

(3) Increase in the number of units with higher investment results in reducing the employment opportunities as there can be higher mechanisation. This might have reduced the intake of employees in a unit and thus the average number of workers per unit might have fallen.

(4) The increase in the number of units with higher capital outlay and fall in average number of workers per unit resulted in increased fixed investment per worker.
(5) Reduction in the average number of workers per unit might have resulted in the increase in the average production per worker.

Thus, it can be said that there is a mixed growth in the small scale sector.

CONCLUSION:

The development of Small sector gained momentum during the Second and Third Plan periods. Between 1956 and 1979 a number of Committees were formed to study various aspects of this Sector. Based on their recommendations several measures were taken for improving the Sector. The definition of a 'small unit' was revised from time to time to get more number of units into it. There is a significant increase in the number of small units in the country, the investment and employment opportunities in the sector are also increasing from Plan to Plan.
SUMMARY

Development of Small Industry prior to 1951 had been in an unplanned way lacking efficiency and stability. During the First Plan an attempt was made to set out the lines along which development programmes for village and small industries could be undertaken. A network of six organisations had been brought into existence during this period.

In 1955, National Small Industries Corporation was established to improve the marketability of the products of small sector.

The Second Plan aimed at providing a wider base for this sector. This encouraged formation of trade associations and industrial co-operatives on an experimental basis. About 60 industrial estates have started functioning during this period. The States were asked to attend to the development of small units constantly.

During the third plan a centrally sponsored scheme for rural development was taken up in different areas all over the country. The S.I.D.O. took initiative to collect statistics relating to small units in the country.

RBI introduced refinance facilities to Commercial Banks between 1966-1968 to improve credit
facilities for small entrepreneurs. Besides the credit guarantee scheme was extended to small units in the Fourth Plan period. The Government could not achieve the expected progress in this sector due to some constraints like power and raw material shortage and absence of skilled workers etc. Similarly, during the Fifth Plan Period also the progress of this sector was not as expected of it due to many causes like the inflation and political disturbances. An important event in this period is the identification of the Tiny Sector in 1977.

During the Sixth Five Year Plan Period efforts are being made to foster development of this Sector on scientific lines.
CHAPTER XI

GOVERNMENT AND SMALL INDUSTRY
CHAPTER XI

GOVERNMENT AND SMALL INDUSTRY

ECONOMIC IMPORTANCE OF SMALL SCALE SECTOR IN INDIAN ECONOMY.

... 

"The remarkable growth of small industries in India in the last few years has been a significant feature of our economy. That itself has created new problems for us in regard to raw materials coal and power. But, it is a sign of growth............."(1) said Pandit Jawaharlal Nehru. This statement amplifies the importance of small sector in the national economy.

Small industrial units manufacture products ranging from small tools to television sets. Their contribution to national industrial output is overwhelming and is around 44% of the total industrial production.

The economy of the country underwent a drastic change from that of import oriented pre-independence era to the present development oriented one. At the time of independence Britishers handed over to us a country where people could only use industrial goods. But they could not disturb or shake the skill and workmanship of our artisans and small industrialists, the wealth of which India can be proud of.

**NEEDS OF THE WELFARE STATE:**

The Government wanted to exploit this manpower as a step towards the industrial development. This has been hailed as a correct policy as in this way the vast rural population could be made more productive. This is possible only by establishing units which are labour intensive. The primary object of developing small industries in rural areas is to extend work opportunities, raise incomes and standard of living and to bring about a more balanced and integrated rural economic development. These objectives mainly follow the principles of a welfare state and aim at developing the country on the basis of the principles of social justice and social welfare.

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OBJECTIVES OF A WELFARE STATE:

During the past 30 years the country has been successful in implementing its plans keeping in view the needs of industrial development. This has resulted in increasing the volume of production of a wide variety of new products, creating more employment opportunities and mobilisation of huge volume of capital.

Referring to the role of cottage and village and small scale industries the Industrial Policy Resolution of 1956 says:

'They provide immediate large scale employment. They offer a method of ensuring a more equitable distribution of national income and facilitate an effective mobilisation 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'.

SMALL SCALE UNITS PROVIDE LARGE SCALE EMPLOYMENT:

'The small scale industry which is labour intensive plays a vital role in the overall economic development of a country like India where millions of people are unemployed or under employed, where
most of the entrepreneurs are capable of only small investment and where there is dearth of sophisticated machines and modern technology. It is a fact that the per capita investment is low in S. S. sector compared to large scale sector.

It is agreed that the amount of capital invested in small scale units will provide more employment opportunities when compared with the employment opportunities available in the large scale industry.

**Development of Backward areas:**

In 1956 the Government felt that the growth of small sector will lead to a balanced regional development. Development of small units in rural areas will help to strike a healthy balance between the rates of economic growth in urban and rural areas. This results in reduced social costs such as provision of living accommodation in urban areas, hospitals, recreation facilities etc. Besides small units can easily be decentralised than large units and thus the problem of atmospheric and noise pollution could also be minimised.

It is also observed that small units when started in rural areas will also eradicate the recurring problems of seasonal unemployment in agriculture.

---

Effective Mobilisation of resources of capital and skill:

'In small industry there is less of a gap economically and socially between worker and his employer', (4) and thus there is equity. This is the outcome of the number of workers employed in a unit being less and the employer will also be working as one among the workers. Thus the employee will feel that there is no distinction between him and his employer and will try to put forth maximum efforts to improve the work efficiency. Similarly as the small unit is less capital intensive anybody with the required degree of zeal can pool up his resources and start an industry.

Though there are certain points in favour of small units, there is a fear that 'the price of greater equality now may be a smaller income in future or to put it in another way, the price of more (lower paid) jobs now may be fewer 'decent jobs' later'. (5)

(4) DHAR & LYDALL (1961) op. cit p.21
(5) DHAR & LYDALL - Ibid : p.27
But in a country like India, the labourers have a choice, a choice not between a high paid job and a low paid job, but between a low paid job and no job at all. 'So even if small entrepreneurs provide low paid jobs, they would be of vital importance in an economy where millions of persons are in search of employment'. Thus a policy that supports development of cottage and small industries is 'really a policy of social insurance for a group which would otherwise be threatened by unemployment.

Small units thus have a special significance because of their potential value of the employment of more persons. But it does not mean that with the development of small scale units the scope for the development of large industry will be slackened. It is a proved fact that by developing Small Scale sector ample scope is created for the development of large scale sector, as today's small scale industry will be tomorrow's medium scale industry and tomorrow's medium scale industry will be a large scale industry the day after.

(6) B. DUTTA - Economics of Industrialisation
p. 194
Equitable distribution of National Income:

Development of small industries results in balanced regional development and increase in employment opportunities. This results in increase in the production leading to higher revenue at the national level. The Government can provide more amenities to the people and thus ensure equitable distribution of national income. As the employment opportunities are more the standard of living can be improved as there will be an increase in per capita income.

Social Welfare and justice:

The primary object of developing small industries, in the rural and backward areas is to provide a sound base for more balanced and integrated rural economy. The setting up of small units in these regions will result in the betterment of transport facilities and supply of electricity and water etc. Thus, there can be a wholesome development at the village level. These units also provide subsidiary or alternative occupations to the rural populace. The local resources can be efficiently utilised to improve the productivity of the units. Thus the Government aims at improving social welfare activities by co-relating them with production programmes whenever possible through the development of labour-intensive small scale sector.
This is expected to improve the earning capacity of the masses and results in an increase in their purchasing power. Marketability of various industrial products could be stepped up as a result as there will be an increase in demand for these products. Ultimately, better industrial and economic activity can be noticed in the rural areas. The spread of healthy economic activity to the villages and improvement of the standards of living of the rural masses will result in equitable distribution of wealth which is the key factor for the establishment of a welfare state. In the process social justice is sought to be achieved with a greater emphasis on 'Anthyodaya' i.e., the betterment of the weakest of the weak.

The Government's Policy:

It is observed that since independence the policy of the Government is to develop the small scale sector and thus try to achieve some of the objectives of the establishment of a welfare state. The industrial policy of 1948, stated that the cottage and small industries are best suited for the better utilisation of local resources and for the achievement of local self-sufficiency. The industrial policy resolution of 1956 laid a greater stress on the role of village and small
industries. It stated that 'the aim of the state policy would be to ensure that the decentralised sector secures sufficient vitality to be self-supporting and its development is integrated with that of large scale industry. The State will, therefore, concentrate on measures defined to improve the competitive strength of the small scale producer'. Reiterating the role of small industries, the policy emphasised that this sector could be developed by organising industrial co-operatives. The policy also earmarked a list of items for exclusive production in the small sector.

During 1974 the Government gave a new thrust to the development of the small sector by providing the following facilities on a large scale viz.,

1. Allotment of raw materials in additional quantities.
2. Granting subsidies and incentives.
3. Assistance in marketing, export promotion and diversification of production.

The 1977 industrial policy brought about far-reaching changes in the entire spectrum of small sector. The main thrust of this policy was an effective promotion of cottage and small industries to be widely dispersed in rural areas and small towns. It had been laid down that, 'whatever can be
produced by small and cottage industries will be produced by them only*. This policy gave special attention to tiny sector*.

The 1980 Industrial Policy Resolution also stressed the need for the development of tiny and small scale sectors. The list of items which would be exclusively reserved for the small scale sector has been significantly expanded. It includes 834 items (as on March 1982) as compared to about 160 items earlier (December 1976).

The Government had also extended certain other schemes to help the small sector viz.-

(i) improve their production techniques
(ii) ensure prompt supply of scarce raw materials
(iii) provide credit facilities for meeting financial requirements (fixed and working capital)
(iv) provide common service facilities.

A number of institutions were also established to strengthen the development of small scale units. Thus the Government had taken a number of steps to foster the growth of the small sector. But an important question is how far all these measures have succeeded in achieving the objectives set and transform the situation? An evaluation is not out of place at this stage. The experience of the small sector has been that these steps have not

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*As explained in Chapter I.
succeeded in achieving the desired objectives. Perhaps this is due partly to the interference of
the Government at each step and due to certain lapses on the part of the Government in providing
proper atmosphere for the development of the small sector. Let us examine this picture a little ela-
borately:

Government and Entrepreneur:

Every entrepreneur has to begin his contact with the Government (Central and/or State) almost
from the moment he conceives the idea to start his unit.

Entrepreneurs wanting to set up industrial units are confronted with some problems like:

1. Selection of the product line.
2. Registration of the unit.
3. Getting clearance from various Government Departments viz., health, town planning,
   sales tax etc.
4. Registering for: allotment of materials through Government/its agencies, grant
   of subsidy and marketing assistance, etc.

All these and many more requirements are linked directly with the working of Central and
State Governments. It will be appropriate therefore to discuss the role of the Government in the day to day working of a small unit.

PROJECT PROFILES:

'Could you suggest some industry in which I could invest?' is the common question many prospective entrepreneurs often ask. This question is mostly faced by officers of the industries departments, Small Industries Service Institutes and Employment Exchanges. To help these agencies in answering such questions posed by entrepreneurs the Central and State Governments have prepared certain project profiles to suit the needs of various States. The I.D.B.I. had also prepared an Industrial Potential Survey Report in respect of many States and Union Territories in the country. While preparing these reports the Governments as well as I.D.B.I. had to take into consideration the following factors viz.:

(1) availability of resources in the State or region
(2) the general level of the development of the region and urban agglomerations
(3) infrastructure available
(4) investment capacities of the entrepreneurs etc.
These reports present various ideas which could serve as the basis for a detailed investigation into the feasibility of particular projects. It is worthwhile to note the attempts of the Government to help the prospective entrepreneur in selecting his venture. Unfortunately, these profiles are out-dated and are not properly revised at frequent intervals. In certain cases they are also misleading as the persons in charge of preparing them lack practical experience and proper perspective. Hence many of them are not realistic and cannot be implemented.

It is desirable therefore to strengthen the organisations i.e., institutions of the Central/State Government dealing with small sector development with really qualified and experienced consultants, 'who will prepare the correct and upto date reports by investigating-identifying and selecting proper products which will have good markets for at least ten years to come.'

*During 1971 Govt. of Andhra Pradesh has prepared profiles of 100 schemes for the use of entrepreneurs in the State. In July 1974, IDBI has submitted its report entitled 'Industrial Potential Survey of A.P.' to the Govt. of India. This report contains the list of industries which could be taken up by the entrepreneurs in the State.

LICENCES/PERMISSIONS:

Having selected the project the entrepreneur has to obtain licences from various Government authorities to fulfil the statutory obligation. Here the Government appears to be following an inconsistent and ambiguous policy. For instance, it is said that the registration of a unit is not compulsory. But the institutional agencies approached by the entrepreneurs for certain incentives, facilities or concessions insist on registration. This situation drives the industrialist to a state of mental disequilibrium as he would not be sure as to what to do in such a situation. Normally, the registration of units is done at two stages viz.,

(a) Provisional registration: This enables an entrepreneur to take necessary steps to bring the unit into existence.
(b) Permanent registration: When the entrepreneur has taken all steps to establish the unit and when it is all set to start working, he may apply for permanent registration.

PROCEDURE OF REGISTRATION:

The incumbent has to apply to the District Industries Officer or the General Manager, D.I.C. for registration. Provisional registration will be
granted on mere application. This will be converted into a permanent registration if the unit is ready to go into production within six months from the date of issue of provisional registration certificate. This can be renewed for a further period of six months at the request of the entrepreneurs.

Based on the product to be brought out, an entrepreneur has to obtain licence/permission under various statutory provisions as shown below.

1. Factories Act
4. Drugs and Cosmetics Act.
5. Employees Provident Fund Act
6. Sales Tax Act
7. Pesticides Act
8. Central Excise Act
10. Food Products Manufacture and Supply Order.

Besides, he has to obtain permission from
(a) Commissioner of Civil Supplies and
(b) Director of Town Planning for buildings and Plans.
DISTRICT INDUSTRIES CENTRES (DICs):

Prior to 1977, in the process of establishing the unit, the entrepreneur was made to run from pillar to post to fulfill various formalities. But during 1977, the Government of India took a decision to start District Industries Centres (DICs).*

The D.I.C. Scheme is a centrally sponsored scheme but implemented by the State Governments. At present, DICs are working in more than 300 districts all over the country.

This centre is headed by a General Manager assisted by seven Functional Managers and other supporting staff. They would deal with the following subjects.

(a) Economic investigation
(b) Machinery and equipment
(c) Research, Extension and Training
(d) Raw Materials
(e) Credit
(f) Marketing and
(g) Cottage Industries.

Their efforts will be supplemented by functionaries of other organisations who will work as members of the team at the D.I.C. The centre is intended to stimulate rapid industrialisation, creating a new awareness in the rural people and to offer all services, support and render any assistance required by the entrepreneurs. Accordingly, the D.I.C. is

*Vide its Industrial Policy Resolution Dt. 23-12-1977.
to guide the entrepreneurs under the following lines:

1. Identifying product line
2. Preparing Schemes
3. Obtaining licence/permission/registration
4. Securing financial assistance
5. Acquiring suitable land/factory shed in the industrial development area (IDA) or in the industrial estate.
6. Purchasing suitable machinery
7. Procuring raw materials
8. Arranging for marketing
9. Disseminating information on technical and technological developments
10. Arranging implant training
11. Securing State/Central incentives
12. Improving the productivity of the rural artisans.
13. Providing follow-up services on continuous basis to sustain the interest of the entrepreneurs.

It was also stated that the D.I.Cs will have a very close link with other state level organisations like State Financial and State Small Industries Development Corporations. These Corporations are advised to work in close co-operation with D.I.Cs so that all their inputs are made available to the entrepreneurs under one roof.

AN ASSESSMENT OF DICS PERFORMANCE:

It may be too early to assess the performance of the DICS as they were started only four years ago. But, for a quick assessment on the basis of the data collected is that, the DICS are mere centres of directing movement of the entrepreneurs from one office to the other. (8)

(8) Personal enquiry notes
to post to get clearance, entrepreneurs were handicapped by delayed official action.

It is also learnt that the political influence is playing an important role in the working of these centres. A number of instances have come to our notice wherein the political and money power has played a major role even in registration. An example can be quoted with advantage to prove the point. It is that of two persons who wanted to establish steel furniture manufacturing units. Entrepreneurs X and Y* approached DIC for a temporary registration, to start steel furniture manufacturing units at Anantapur town. X is a resident of Anantapur town, Y hails from a nearby village Bukkapatnam. Both of them studied up to secondary level. The former is ready to invest Rs. 10,000/- and needs only a clearance of his project. Whereas the latter is not ready to invest any amount. It was learnt that application of X was turned down on the ground that the scheme is not feasible. Y was given clearance on political pressure. The unit was wound up within two years due to financial mis-management. This can only show how unprincipled

* The names and addresses of the entrepreneurs are kept confidential on their request.
activity carried on by DICs can ultimately demoralise the entrepreneurs and kill their initiative. During our enquiry many entrepreneurs came out with such complaints against allotment of Government works to small units. Therefore, one can come to an irrefutable conclusion that the centres are not doing much of the constructive work expected of them. 'The result may be that people may have lesser faith in the DICs and come to look upon them as an extension of offices with neither the capacity nor the attitude to spearhead an economic movement'. (9)

But the management of the DICs are of the opinion that the public approach to them is not encouraging. Even of those approaching, many are accompanied by politicians expecting quick action. But they are not given the authority to do so.

It cannot always be assumed that just because the centres are set up at the district headquarters, more entrepreneurs will come forward to set up industrial units. The centres should note that there may be many reasons for this poor turnout vis.,

(1) Lack of information of the existence of DICs.

(2) Lack of entrepreneurial talent in the region.

(3) Poor financial economic position of the people in the region and so on and so forth.

In such cases, the centres should study the attitudes of the people in the region. They must inculcate entrepreneurial habits in the public by education, propaganda and publicity. 'The DICs have a greater responsibility in fulfilling their tasks in districts which conspicuously lack entrepreneurial talents as compared with others.' (10)

The State Governments should also understand that the single window concept which is the basis of the DIC programme, presupposes delegation of certain powers to the centres on a wide and reasonable basis. 'Unfortunately, in a majority of cases such powers had not been delegated. As a result of this even the minimal dispensing function of providing land, power, water, raw materials, environmental clearance etc., were not being performed by DICs.'

(10) DIC - Some receipts for their success -

It was also noticed that all the DICs in the State of Andhra Pradesh are working on almost similar lines and programmes. This seems to be a major weakness in their programmes and administration. The DICs should note that they cannot have uniform programmes all over the State for the State is full of diversity in political, geographic, economic, industrial and ethnic factors. Therefore, they should have diversified programmes based on the requirements of each district. The State Government should also see that the DICs chalk out district-wise programmes to suit the needs of the district rather than to blindly follow the directions from higher ups. Only then the centres can be developed as the nuclei of industrial growth of respective districts.

Absence of right personnel:

**FAILURE OF MANY SCHEMES IS ONLY DUE TO LACK OF RIGHT PERSONNEL TO IMPLEMENT THEM:**

The DICs today constituted the focal agency in the district through which all agencies of Central/State Governments could seek to implement their respective programmes in the field of industrial development. The success of any such programme

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(11) Based on the list of proposed industrial units given by DIC action plans 1979 - 83.
depends upon the personnel heading the DIC/ the various developmental agencies.

Lack of industrial experience and poor public relations are the common lapses and weaknesses noticed with the Government officials in charge of the institutions. The I.A.S. personnel or the the State Officers are not a match to the professional executives. The reason is that as these officers are trained in the bureaucratic set up they may not have the dynamism of the professionals. This situation leads to delay in implementation of the schemes on time. Thus, unless the Government is able to deal squarely with the problem of finding talented men to run an institution there is hardly any hope for it to achieve the required level of industrial development.

Frequent transfers of top officials also results in a set back in the smooth running of the respective institutions. It is also noticed that some of the transfers are politically motivated. At times other considerations are also given weight (for eg., influence of the incumbent in the political circles) in posting officials as heads of institutions. Due to this reason many talented persons are not being given a chance to prove their mettle.
Everything will go wrong if an officer is posted to a place for which he is not suited. Only suitable persons should be posted to responsible posts. Then only they will have the resourcefulness to meet the situations arising therein.

RETURNS TO BE FILED AND APPLICABILITY OF VARIOUS REGULATIONS TO SMALL UNITS:

When the unit comes into being after securing licence/permission from various authorities it will almost become a slave to the Government. From thereon the industrialist has to keep on filing a number of reports or returns in the prescribed pro-forma to various officers. An exhaustive list of the documents to be filed is shown below.
<table>
<thead>
<tr>
<th>S. No.</th>
<th>Act</th>
<th>Periodicity and Details of the Document</th>
<th>To whom to be submitted</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Factories Act</td>
<td>Half-yearly return</td>
<td>Inspector of Factories</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Annual Return</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Accident Report</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Payment of Wages Act</td>
<td>Annual Return</td>
<td>Inspector of Factories/ Labour Inspector</td>
</tr>
<tr>
<td>3.</td>
<td>Minimum Wages Act</td>
<td>do</td>
<td>do</td>
</tr>
<tr>
<td>5.</td>
<td>Employees State Insurance (ESI) Act</td>
<td>1. Accident Report (within 24 hours of the accident)</td>
<td>E.S.I. Corporation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Return of declaration (within 42 days)</td>
<td>Respective Branch Manager</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3. Contribution Card (Annual)</td>
<td></td>
</tr>
</tbody>
</table>

Source: Data collected.
The above table gives a list of Acts under which a small industrialist has to file a number of returns at different intervals. In addition, the entrepreneur should also file annual returns with the Commercial Tax Officers for assessment and wherever applicable he should also file Income-Tax returns.

We can see therefore that the industrialist is at the mercy of the Government agencies for something or the other, right from the beginning. All this involves a lot of clerical labour. This takes away much of his precious time and deprives him from bestowing full attention to the problems of his unit.

The entrepreneur is left with no option in fulfilling these formalities as the penalty for non-compliance is very heavy. It may be cancellation of registration, discontinuation of Government supplies/orders and so on.

These procedures are being continued for long and no serious attempt appear to have been made by the Government to simplify them. Keeping in view the need for reducing the burden of the entrepreneur the Government can insist on a few important returns and do away with the rest.
SUPPLY OF RAW MATERIALS BY GOVERNMENT:

We have noted that scientific materials management is essential for every industrial organisation. It should also be noted that material supply is equally important. For the smooth running and better performance of a unit continuous supply of materials is a must.

If the unit is using uncontrolled materials and if there is short supply the Government need not be blamed. But in case of controlled items the responsibility for continuous supply lies with the Government or its agencies at least to the extent of quotas allotted to respective sectors. Here the Government should seriously strive to fulfil its responsibilities.

We have noted from the discussion in the previous pages that the Government is meeting only 34\% (12) of the requirements of units depending on controlled materials and therefore shortage of raw materials is the most important problem of many units. The intensity of raw material scarcity varies from industry to industry. The position appears to be the same both in case of indigenous and imported materials.

(12) Please refer table 67- Chapter V.
As regards the indigenous materials the problem appears to be the defective system of allocation which often resulted in 'created shortages'. As a result, genuine units are forced to buy their requirements at higher prices in the open market.

The position of imported materials:

Coming to items which are imported (wholly or partly) the requirements are met only partly in majority cases. The entrepreneurs therefore are forced to pay higher premium to obtain materials or be satisfied with domestic substitutes or 'sacrifice the trade opportunities depending on the market' conditions. A number of small industrialists dealing in minerals and metals (ironware) and paper products are slowly losing their markets due to their incapacity to pay higher price for essential material in the open market.

It is needless to say that many entrepreneurs are not happy with this situation and very much dissatisfied with
(1) the licensing procedure for allotment of material and
(2) the conditions laid down by the canalising agents like STC and MMTC for releasing allotted quotas.

The general opinion in the sector is that the Government is not prepared to meet the increased raw material

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requirements of expending units though there is a call to expand their capacities.

As one of the solutions to this problem, the Government of India simplified the licensing procedure for importing raw materials by small units - vide its import policy for 1981-82. For eg., (1) The limit for 'repeat' licensing (without production of consumption certificates) in the case of small units has been raised from Rs.50,000/- to Rs. one lakh (2) the import of some raw items (used by small sector) like aluminium rods, fatty acids has been canalised through public sector agencies.

At best it may be a temporary solution, but can never be a permanent remedy. A line of solution to this problem would be the following:

1. The Government should examine the requirements of each individual unit thoroughly and remove dummy claimants if any from the allotment list.

2. Allocations must be made more automatic and simple without delay.

3. Units getting allotment of controlled materials should be properly watched to avoid misuse of the quota allotted.
The authorities should not hesitate to import more if the total requirements could not be met from out of local reserves. Imports may be needed only at the initial stages of this exercise. When once the local availability improves the imports may be discontinued.

**Reasons for the scarcity:**

The scarcity of raw materials is the result not only of erratic allocations, but also due to certain distribution lapses. To cite an example many a time there will be no link between the quality and quantity of material allotted and material released actually. In certain cases the material allotted will be of no use to the allottee.

Next comes the problem of transporting raw material to the consumption centres. Uncertainty in the timely movement of trains on different guages is also an important drawback of the system. To overcome this lacuna some of the State Governments (e.g., Andhra Pradesh) have opened raw material service centres in collaboration with the respective small industry development corporations. These centres are to store certain scarce raw materials for distribution among the small sector units. But a number of items are still being controlled by the central agency through State agencies.
The study Group III of the estimates Committee of the Lok Sabha visited South India during May, 1979 and gathered the views of some entrepreneurs on this problem. In the course of discussions with the Committee the Karnataka Small Scale Industries Association (KASSIA) suggested to open 'a dump (Centre) for raw material distribution,'(14) in South India to which material is to be transported by the manufacturers. The Association feels that the transportation could also be regulated if the number of such dumps are set up at different places all over the country. Further the movement from the dump to the consuming point could be easily made as most of these would be within a distance of an overnight journey by road or rail. Thus there could be regular supply of scarce/controlled raw materials to the small sector. It is a well known fact that continuous and adequate supply of raw materials will result in (a) a reduction in open market prices (b) reduction in the temptation to exaggerate the requirements by the allottees (c) continuous production in the sector (d) a reduction in cost of production (e) the improvement in raw material reserves of the Government and enables it to serve the small sector in a better way.

(14) KASSIA Bulletin, July 1979: Vol.13(7) p1
PROBLEM OF PRICING MATERIALS:

Prices of materials are not the same everywhere. The industrialists plead for fixation of uniform prices for raw materials all over the country. At present items like coke and coal cost less around the coal mines, whereas in other regions the mere cost of transportation amounts to four to six times the material cost. This automatically results in a wide variation in production costs. This is causing a concern among units located at far off places. Government should think of this problem and solve it expeditiously.

Small units account for nearly 44% of the total industrial output of the country. But it is noticed that the essential raw materials are not allocated to this sector in the same proportion. As a result many units run short of materials and are forced to purchase them in the open market at high premium. It is time that the small sector is supplied with the raw material in tune with its contribution to the total industrial production of the country. The claim is legitimate and must be met quickly.
The fact that small sector is labour oriented is indisputable. The important role played by this sector in providing large scale employment and its viability for better growth is being stressed by the Government, very frequently. As a result of the growth of this sector, there is an unprecedented increase in the volume of labour engaged. However, in the implementation of some of the labour and industrial acts, small units have been subjected to a lot of inconvenience. A brief discussion on this vital issue is not out of place.

To ensure that the labour is not exploited the Government have passed several laws governing the industrial sector including small sector. Some of the legislative enactments are:

1. The Factories Act, 1948
2. Payment of Wages Act, 1936
3. Minimum Wages Act, 1948
4. Employees Provident Fund Act, 1952
5. Employees State Insurance Act, 1948
6. Payment of Bonus Act, 1978

All these Acts aim at forcing the small industrial unit to pay its labourers on par with a large unit.

At present the Government is not discriminating between large, medium and small units for applying the provisions of these Acts. This does not appear
to be a fair practice. By their very nature the small units must get preferential treatment at the hands of the Government in adhering to the provisions of the Acts. The provisions should be applied keeping in view the capital invested, the expected returns and the number of workers employed.

Certain concessions could be allowed to the small units as detailed below:

1. Small industries in rural areas may be exempted from the purview of (a) the Factories Act (b) Employees Provident Fund Act (c) Employees State Insurance Act (d) Minimum Wages Act, for a period of first five years.* This will reduce their financial commitments to labour and leave additional funds for establishing the new unit or expanding the existing unit. The opinion is that if a unit continues to exist for a period of five years, then it can withstand ups and downs in future. There is every reason to believe that such units will not be wound up abruptly.

2. The provisions of Minimum wages Act should be applied only based on regional conditions, coupled with the investment climate in the region.

*The period of five years was indicated by many entrepreneurs during a personal interview with them.
The paying capacity of the unit is another important point to be taken note of while applying the Minimum Wages Act. Another noteworthy factor is that many small units have almost become the training grounds for the labourers. Many workers leave the small unit and migrate to big industrial units as soon as they learn the work. Thus many units do not really obtain the benefit of the training that they have imparted to the workers in full.

3. Small industries had several constraints both financial and managerial. Financially, they are weak with limited capital base. Managerially they are small because majority units are proprietary or partnership concerns. Such being the case, the sector should not be unnecessarily over burdened with too many statutory restrictions. Therefore, there is not only a need for differentiation between small and other industries but also among small units themselves. Based on the conditions in different industry groups/the individual units the Government may introduce the Minimum Wages Act in a phased manner.

4. We have already noted that the small sector is governed through nearly a dozen statutes. Many entrepreneurs fear more for the harrassment they receive at the hands of the implementing authorities than the statutes.*

*Personal enquiry notes.
The Government should note that the implementation of the law is often effected by the letter instead of the spirit. It should therefore advise the concerned authorities to take a realistic view of the regulations than sticking to mere formalities and procedures. The officers should understand the purpose of the law and try to see nothing adverse happens.

An international authority on Small Industries, Sri K. L. Nanjappa is of the opinion that the Labour Laws are the serious impediments for development of small industries in India. He feels that it is foolish to 'expect a small unit with no establishment to comply with all the labour and other laws which are in common with a large scale unit'. (15)

All this tells us that there is need for the Government to simplify the Labour Laws applicable to the small scale sector.

MARKETING ASSISTANCE - A REVIEW:

Marketing is an important area responsible for the success of a small unit. While formulating its policies for the development of small sector during the mid-fifties the Government of India

provided certain concessions and assistance to small units for marketing their products. Similarly State Governments have also drawn certain schemes. The NSIC, State SIDCs and certain other institutions have also formulated some schemes, in line with the Government to assist the entrepreneur in marketing the products.** To answer the needs of the units with certain plans to export "the Federation of Indian Export Organisation" (FIEO) has set up a separate cell to provide consultancy and other services to small exporters. The cell co-ordinates the activities of developmental and export promotion organisations. The new wing also complies basic and comprehensive information about (1) the products brought out by different units, (2) production capacities (3) export potential (4) list of manufacturers, etc.

Though all this is commendable, the real problem appears to be the market itself. It is observed that the buyers market is resisting the sales of the products of the small units. Many reasons can be adduced for this situation. Some of them are:

** A detailed discussion is shown in

Chapter VII
1. Lack of coordination among various organisations. The organisations are not approaching the problem collectively.

2. The facilities available are not known to majority of small entrepreneurs due to lack of adequate publicity. This is more so in a vital area like quality control.

3. The Government is only directing the concerned institutions to improve the marketability of the products of small units. It is almost neglecting its basic responsibility of inculcating the marketing habit in the minds of the industrialists. If this is not done a day may come when the industrialist will just produce and ask the Government to purchase/market what he had produced.

4. Price preferences are shown to the products of small units by Government organisations under a specific scheme. This scheme appears to be popular only with certain central Government Departments like Posts and Telegraphs and Railways. Majority of State Government offices and organisations are not serious about implementing the scheme. In the process small units are unable to secure market for their products in their own States.

5. Although general satisfaction has been expressed on the flow of information on tenders
the complaint is often regarding favouritism shown in the placement of orders. It was stated that Government departments and Government industrial enterprises did not show a preferred treatment to the small sector in placing the orders. (16)

6. Operation of various tax regulations viz., State Sales Tax Act, Central Sales Tax Act, Central Excise Act is a major hurdle for the development of small units. Charging multipoint tax on certain items has resulted in a disadvantage to the producers. It is learnt that the tax admissible on products ranges between 5% to 20%. As a result, the sale price of the product has to be increased. This escalates the price of the products of small units almost equal to that of the other units. As the producers in other sectors have a popular brand name with mass production base they can capture the market easily as against the small sector.

7. The Central and State Governments reserved certain items for exclusive purchase from small sector. It is learnt that these items are mostly traditional in nature. This list needs periodical revision to bring in more sophisticated items produced by the sector.

*The list at present consists of 245 items in respect of Central Govt., and 185 items in respect of Govt. of Andhra Pradesh. (16)Study of selected small units - op.cit.p.39.
The Government should advise its organisations to establish coordination with each other. This can be achieved easily if they consult each other before formulating a scheme. These institutions should also encourage 'consortium approach' among different units located in an area manufacturing similar products. Under this scheme the units can pool their production and offer it collectively to the purchaser. This will increase the bargaining power of the units and can reduce competition within the sector. As a result of this, the sector will be

(1) in a position to take and meet bulk orders
(2) able to undertake surveys collectively which otherwise would be too expensive to individual units
(3) able to enjoy the benefits of bulk purchase and mass production.

LACK OF PUBLICITY:

Proper publicity is to be given to the various schemes introduced by the Government or its agencies. Institutional assistance could be provided by developing common facilities for ensuring quality control and technical guidance whenever necessary enabling the sector to produce quality goods. This would help in building up confidence among consumers.

The Government organisations like NSIC and State SIDCs are now acting as middle men to
establish contact between entrepreneurs and prospective customers. Instead, till such time, the units get established in the market the corporations can purchase certain identified products for resale by themselves. In the meantime, the entrepreneurs may be given training in marketing management and introduce them into the market gradually to deal with the situation. By doing so, the institutions would enable the new entrepreneurs to concentrate only on manufacture of quality products. Thus the products can secure a better market.

As regards the lack of publicity recently the Government of India has decided to initiate the same measures, as under. (17)

1. To publish tender notifications in all the leading news papers from next financial year, unlike in the previous years. Hitherto such publicity was given only in the Indian Trade Journal and similar professional journals.

2. It is also proposed that the Government would also permit agencies like the SID, NTC and SIDCO to quote products made by units not registered with the department of supply.

(17) KASSIA Bulletin - Vol. 22 Nos. 2 & 3 (Feb-March 1982) As revealed by the Secretary, Government of India, department of Supply, Ministry of Supply & Rehabilitation.
3. Period of validity of registration of small units with DGS & D is likely to be increased from the present three years to five years.

All these are welcome as they will be of immense use to the sector.

AT THE EXPORT FRONT:

The value of exports from small sector has substantially increased in recent years. Table 114 shows the details of exports.

TABLE 114

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Exports**</th>
<th>Exports from SSI</th>
<th>(3) as % of (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
</tr>
<tr>
<td>1974-75</td>
<td>3329</td>
<td>538</td>
<td>16.16</td>
</tr>
<tr>
<td>1975-76</td>
<td>3942</td>
<td>629</td>
<td>15.97</td>
</tr>
<tr>
<td>1976-77</td>
<td>5142</td>
<td>879</td>
<td>17.07</td>
</tr>
<tr>
<td>1977-78</td>
<td>5500</td>
<td>990</td>
<td>18.00</td>
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<tr>
<td>1978-79</td>
<td>6000</td>
<td>1140</td>
<td>19.00</td>
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<tr>
<td>1979-80</td>
<td>7000</td>
<td>1435</td>
<td>20.50</td>
</tr>
<tr>
<td>1980-81*</td>
<td>8000</td>
<td>1760</td>
<td>22.00</td>
</tr>
<tr>
<td>1981-82*</td>
<td>9200</td>
<td>2162</td>
<td>23.50</td>
</tr>
<tr>
<td>1982-83*</td>
<td>10100</td>
<td>2600</td>
<td>25.00</td>
</tr>
</tbody>
</table>

Note *Estimates
**Includes traditional and non-traditional exports.

Source: Data collected.
SHARE OF SMALL SCALE INDUSTRIES EXPORTS IN TOTAL EXPORTS

![Graph showing the share of small scale industries exports in total exports over the years 1974-83. The graph indicates a steady increase in the share from 15% in 1974-75 to over 20% in 1982-83.]
The above table shows that there is a gradual increase in the share of small scale sector in exports. More than 800 items manufactured by small units are exported to countries like U.S.A., U.K., and U.S.S.R., considering the export potential on the output of the sector, the exports are likely to grow at the end of the sixth plan. A list of items of major exports of small units is given below.

**MAJOR EXPORT PRODUCTS OF SMALL SCALE SECTOR.**

1. Engineering goods
2. Drugs, Pharmaceuticals & Fine Chemicals
3. Sports Goods
4. Finished leather & leather manufacturers
5. Readymade cotton garments, cotton hosiery etc.
6. Woollen Hosiery
7. Cashew Kernels & Cashewnut shell liquid
8. Processed Tobacco, snuff and beedies
9. Plastic products
10. Food products like Pickles etc.
11. Rayon and synthetic products.

The survey revealed that in Rayalaseema, the position of exports by small units is insignificant. Following table shows details of units having export market in the region.

**TABLE 115**

<table>
<thead>
<tr>
<th>Code No. and Industry</th>
<th>Percentage of units having export market</th>
</tr>
</thead>
<tbody>
<tr>
<td>32. Mineral Products</td>
<td>11.76</td>
</tr>
<tr>
<td>34. Metal Products</td>
<td>8.82</td>
</tr>
<tr>
<td><strong>Average for the Sector</strong></td>
<td><strong>2.87</strong></td>
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</tbody>
</table>
Only units in two industry groups viz., Mineral products and Metal products have international markets for their products. On an average 2.87% of small units in the area possess export market. This proves that the sector is having a poor market network.

A major weakness of the sector is that by itself it does not have the necessary strength or resources to take up to export marketing. It was noticed that out of 267 eligible export houses only 70 or 80 had exported products of small units during 1976-77. (16) Thus a significant proportion of the exports of the sector remains outside the purview of export houses.

Many of the export houses do not provide specialised service to the small sector. This is one of the reasons why many small units do not patronise the export houses and hence a fall on the export front. The Government should make it obligatory on the part of such houses in assisting the entrepreneurs to substantially increase their exports. It may also be noted that there is no agency to attend exclusively to exports from the small sector. It is strongly felt that a central organisation is the need of the hour to look to the export problems of the sector.

It is evident from the above discussion that the institutional arrangements for marketing and

exporting products of small sector are very weak. Due publicity is not given for the requirements of the Government from this sector. It is time that the Government applies its mind to this vital aspect not only to increase the exports but also to put the sector on an even keel.

SCHEMES OF FINANCIAL ASSISTANCE:

Small units are given financial assistance by the Central and State Governments and various other agencies. The Central Government is extending Central subsidy to units located in backward areas. Many State Governments are offering State subsidies to such of the units not eligible for Central subsidy.* Thus every small unit is enabled for getting the financial aid from the Government in one form or the other. For instance, term loans are sanctioned by S.F.Cs while equipment is supplied by N.S.I.C. on hire purchase basis. Industrial infrastructure Corporations are providing sites and constructed sheds on attractive terms and conditions.

Besides the Commercial Banks are also extending working capital to small units. The Government is insisting the banks to see that timely assistance is extended to this sector. As a result, the banks are compelled to shift from their age old security

*In certain States Central and State subsidies are given for units in selected backward areas. e.g., Andhra Pradesh.
oriented approach to modern purpose oriented (need based) approach in lending activities.

Despite all these attempts by the Government to improve the situation our study indicated that many entrepreneurs continue to face difficulties in securing finance due to (1) delay in sanctions (2) inadequate sanctions (3) lack of co-ordination between different Government departments etc.

The subsidies granted by the Government also appear to be misused by the entrepreneurs and others. To avoid this misutilisation, the authorities are insisting on various conditions being fulfilled before the amounts can be released. In the process, genuine borrowers are put to lot of hardship.

During 1982 the Programme Evaluation Organisation (PEO) of the Planning Commission assessed the performance of Central Subsidy Schemes to backward regions/districts. In its report the PEO stated that (19) only 'a few relatively advanced States' have benefitted from the Central investment subsidy for the development of the industrially backward areas. The report also states that 53.3% of the subsidy was obtained by bigger units with an investment of more than Rs. 50 lakhs. 25.2% went to units with an investment between Rs. 10 to 50 lakhs and 21.5% to

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units with an investment of less than ₹10 lakh (upto the end of March 1979). This only shows that a major portion of the subsidy was used by the large scale sector.

The banks and State Finance Corporations have their own norms to calculate the financial needs of individual entrepreneurs. They lend a deaf ear to the personal explanations of the industrialist requiring more finance. This results in inadequacy of sanctions. As the amount is not enough to meet the requirements of the entrepreneur they divert the inadequate funds into other channels, at least temporarily.

It is observed that in many cases there is an inordinate delay on the part of the Government and/or the financial institutions in deciding whether to finance and nurse a small unit or not. The delay and inadequacy of sanctions are proving fatal to many units. The PEO has to say on this vital issue, 'the involvement of commercial banks in concessional finance is relatively minor'. 'There is an urgent need to sort out this anomaly and see that the banking sector comes out in a big way to assist the small sector.

The Government and the financial institutions should give a serious thought to this problem.
A remedial action will go a long way in the development of this sector. The authorities should grant subsidies to units under clear instructions to other agencies to follow them up. This follow up action is not insisted upon in the present set up.

The Committee for streamlining procedures for small sector (1979) recommended that in order to promote greater employment through small scale industries an employment subsidy should be given instead of present capital subsidy. The Committee found that small units have not availed the capital subsidy to a significant degree. There is much force in the suggestion of the Committee. The Government has to accept it and implement the same expeditiously.

SEPARATE FINANCING AGENCY FOR SMALL SECTOR.

Due to the failure of these schemes, the idea of setting up a separate financing agency was mooted by the Government in early 1979. Accordingly a top level Inter-Ministerial Committee was formed with representatives from (1) the Ministry of Industry (2) Ministry of Finance (3) Reserve Bank and (4) A representative from Commercial Banks.

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(20) The Economic Times - 11-4-1979, p.1. col.1
The Committee was asked to workout the modalities of the proposed agency.

Later the proposal was shelved with the change in the Government at the Centre during 1980. But it is felt by the concerned that such an agency is the need of the hour which can take care of the growing financial requirements of this sector. In the present set up many small units manage to secure term loans for long periods. But the difficulty appears to be only with the working capital requirements. According to an official estimate only 40% of the working capital requirements are met currently (21). So, the Government should find a way out to meet the requirements of this sector in full.

PERFORMANCE OF INDUSTRIAL ESTATES PROGRAMME:

Another programme brought out by the Government of India to develop small sector is the Industrial Estates Programme.

The success of industrial estates in Britain encouraged the Government of India to start similar estates in this country.


*A detailed discussion on Industrial Estates is given in Chapter III.
The Industrial Estates Programme was launched in India in 1955 following the recommendations of the International Planning Team (Ford Foundation). The objectives of the programme are twofold viz.,

(1) To promote a rapid development of small industries and

(2) To promote the decentralisation and dispersal of industry i.e., to relieve cities of congestion and to promote industries in rural, semi-urban and backward areas.

Industrial estates serve these objectives by providing infrastructural and other facilities to small units.

The programme is being implemented by State Governments with financial assistance from Central Government. But the implementation of the programme is not free from defects. Many estates are located in wrong places without proper conveyance facilities or approach roads. In a number of estates lot many sites are lying vacant even after a lapse of 5 to 10 years after the allotment. The Government had not taken any action against the allottees for not fulfilling their obligations. In certain cases, the allottees are found using the sheds as residential
acGoniiDodation snd some have even let them out.\(^{(22)}\)

Thus the sites in estates are not being put to proper use. Many reasons could be adduced to this situation. Important are:

1. lack of finance, raw material supply, market etc.
2. lack of a sense of responsibility both in public as well as official circles
3. lapses on the part of personnel entrusted with the work of selection of sites to locate industrial estates etc.

The Government should note that provision of infrastructure is not sufficient to attract people. The public should also be educated about the facilities available, advantages in starting industrial units etc.

**Rural Industries Programme:**

In its enthusiasm to develop small sector the Government is encouraging promotion of units in rural areas by opening rural industrial estates under Rural Industries Programme. But the response to locate industries in these areas appears to be very poor.

The Government should note that small units can flourish only with the help of large and medium \(^{(22)}\) Personal enquiry notes.
sectors. Hence it is suggested that there should be an emphasis on the establishment of large scale units in rural areas at the rate of at least one unit in each area/district. This unit may be entrusted with the responsibility of nourishing small units in the locality. The large unit can guide the small ones by treating them as ancillaries and offer them sub-contracts so as to enable them to survive. The Industrial Estates Programme should be so designed to attract a good number of entrepreneurs to start industrial ventures of all sizes.

NEED FOR LEGISLATIVE PROTECTION:

Government of India appointed a number of Committees and working groups to suggest measures for streamlining the growth of small sector. Many of the recommendations of these Committees are implemented either in toto or with certain modifications for the betterment of the sector. The development of small units thus has been receiving the attention of both the State and Central Governments.

A Committee for drafting legislation for Small Scale Industries was appointed by the Government of India during early seventies. Sri A. R. Bhat was appointed Chairman of the Committee. The Committee submitted its report in August, 1972. The terms of
reference and the recommendations of the Committee in brief were the following: (23)

i) to identify specific areas where legislation is considered necessary for the promotion of small industry development with particular reference to:
   a) limited partnerships
   b) simplified company law for small sector
   c) sub-contracting relationship and prompt payment of bills to ancillary units
   d) reservation of items of small scale sector and
   e) purchase programme by public procurement agencies.

(ii) to draft suitable legislation to cover the above subjects.

(iii) to suggest other areas where suitable legislation could be desirable.

The Committee identified specific areas in five subjects which were specifically referred to it and has drafted legislation entitled:

1. Small Industries Development Act including definition of small scale industry
2. Restricted Partnership Act
3. Small Industries Reservation Act

(23) Based on the report of the Committee for drafting legislation for small scale industries - Ministry of Industrial Development, Government of India - August 1972.
4. Small Scale Ancillary Industries Act and
5. Public Stores Purchase and Disposal Act
for Small Industries.

The Committee felt that promotional and or
protective legislation would also be necessary on
the subjects of:

1. Collection of statistics
2. Supply of raw materials
3. Programmes of modernisation and
4. Fiscal incentives.

During 1979 the then Government was all set to
implement the report. A bill for protection of the
interests of small units was also prepared covering
certain aspects of the above report.24 But, due
to a change in the Government in 1980 the bill could
not see the light of the day.

The present Government should feel the need
for such legislation and take immediate steps to
pass necessary legislation. These enactments, it is
hoped will help the small sector in the following ways.

1. At present statutory power is lacking with
the Government to direct indigenous manufacturers to
supply the raw materials to particular agency or

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(24) As mentioned by Dr. Rem K. Vepa, Development
Commissioner, Small Scale Industries, Govt. of
India—vide Kassia Bulletin October 1979—Vol.13
No.10:p.1.
such powers can be secured by the Government through proper legislation. This is to be done basically to provide confidence to the small scale sector.

2. Public Sector Organisations do not appear to be in favour of encouraging ancillarisation programmes inspite of the advice from the Government. The proposed legislation can make ancillarisation compulsory.

3. The Act may provide for the establishment of a separate body to protect the interests of small entrepreneurs. This can be called small Industries Development Authority (SIDA). The new Statutory body should simplify all the procedures in promoting a unit. At present an industrialist has to apply for approval to nearly 20 authorities. The Government should see that this procedure is simplified and the decision of SIDA should be made acceptable to all statutory bodies.

4. Statutory provisions can be brought about to direct large industrial houses and technical institutions to impart training to entrepreneurs. In its 1982 report the P.E.O. says that training facilities are utilised only by one fifth of the entrepreneurs. But a significant number of them
reported that the facilities provided are inadequate or the period of training is of too short a duration without much practical or job orientation. It is suggested that the structure of the training programmes are to be reformulated after due evaluation so that they serve the real purpose.

5. The organisational set up to develop industrially backward areas varied from State to State. By and large the district level set up lacked the required legislative protection for implementing the schemes. This lacuna can be removed.

6. The legislation can also make registration of small scale units compulsory. This will enable the Government to get basic statistics relating to the sector. The information thus collected can act as a guide for further planning.

7. The labour could be simplified for application to small units. This will, to a large extent, reduce the burden of an entrepreneur in meeting various formalities and procedures under different acts.

Thus there is every need for protective legislation to the small scale sector. In this context Sri K.L. Nanjappa had rightly pointed out that:

"The change in outlook and policies of successive Governments should not hamper the
progress and development. For this reason, it is absolutely essential to have legislation for the protection of small scale industries."

CONCLUSION:

The contact between the Government and the entrepreneur begins from the moment he entertains the idea of starting a small unit. There is need for simplification of registration procedures. Labour laws also need reorientation. Protective legislation is the need of the hour.

The Government should see that small sector is supplied the raw material requirements in full. The supply should be in tune with the contribution of the sector to the industrial output of the nation.

The Government at present is not discriminating between large, medium or small units as regards labour legislations. This penalises the small sector very heavily. There is every need for simplifying the labour laws applicable to the small sector.
SUMMARY

Every entrepreneur has to begin his contact with the Government almost from the moment he conceives the idea to start a small unit.

At the time of registration of small units, the entrepreneurs are to follow cumbersome formalities and procedures. They are governed by nearly twenty Acts. There is need to simplify these procedures so as to allow the industrialist bestow more time in the working of the unit.

Shortage of raw materials is the most important problem of many small units. The position appears to be the same both in case of indigenous and imported materials. The Government is meeting only 34% of the requirements of units depending on controlled materials. Thus units are forced to pay high premium to acquire materials or be satisfied with domestic substitutes or 'sacrifice the trade opportunities depending on the market' conditions.

The Government at present is not discriminating between large, medium or small units as regards labour legislations. This penalises the small sector. There is every need for the Government to simplify the labour laws applicable to the small sector.
A number of schemes are being formulated by the Central/State Governments to assist small units in marketing their products. These schemes are not giving the expected results due to lack of co-ordination among various agencies. This can be achieved easily if they consult each other before formulating a scheme. The institutions should also encourage 'consortium approach' among small units.

Protective legislation is needed to develop small sector in the expected fashion. Change in the outlook and policies of successive Governments should not hamper the progressive development of the small scale sector.