CHAPTER-I
INTRODUCTION

1.1. INTRODUCTION

Industries are an integral part of the Indian Economy since the Harappan era. Until the advent of British rule and modern industry, it had perforce, to be small scale. The entrepreneurial spirit was stifled during the long colonial rule as also reflected in the GDP growth rate of 0.9% during the first half of the 20th century. Though, India missed the Industrial Revolution as the foreign rulers would not allow the Indian Entrepreneurship to flourish and is forced to initiate Swadeshi Movement and boycott of foreign goods in the first quarter of the last century, to realize the place of entrepreneurs and small industry in the developing consciousness of modern and free India. But independent India’s economic planning gave a place of pride to the small scale sector, especially, with the objective of fostering entrepreneurship and promoting employment.

In the Indian Economy, Small scale industries have emerged into a prominent sector in recent decades. The Growth has been consistently significant not only in terms of providing employment opportunities and output.

The significant factors of Small scale industries sector is that it accounts for about thirty five percent of the total value of exports from India. The development of Small scale industries is an integral part of the overall economic, social and industrial development of a country. They produce number of products, especially in light engineering, leather readymade garments, hosiery, automobile components, textile machinery and component, chemical, plastics, toys and so on.

The government has given special concessions to the Small scale industrial sector in the areas such as provision of credit by banks, excise and purchase
concessions by the government and so on. Some products have been reserved to be produced only by the Small scale industries as a measure to help the units to thrive⁴.

Since, small industry offers multiple benefits to an industrializing economy like India; it has increased the attention of the policy makers to be a great extent. An exhaustive institutional framework and wide range of policies and programs have emerged for the protection for the promotion of Small scale industries in India. As a result Small scale industries have been growing impressively and contributing, significantly to employment, industrial production and exports⁵.

In much of the developing world, with the advent of planned economy from 1951 and the subsequent industrial policy followed by government of India. Both planners and government embarked a special role for Small scale industries in the Indian economy. Due protection was accorded to both sectors, particularly for Small scale industries from 1951 to 1991, till the nation adopted a policy of liberalization and globalization. Certain products were reserved for Small Scale units for a long time, though this list of products is decreasing due to the change in industrial policies and climate⁶.

Small scale industries always represent the model of socio-economic policies of government of India which emphasized judicious use of foreign exchange for import of capital goods and inputs, labor intensive mode of production, employment generation, non-concentration of diffusion of economic power in the hands of few (as in the case of big houses), discouraging monopolistic practices of production and marketing, and finally effective contribution to foreign exchange earning of the nation with low import-intensive operations⁷.
The Small scale industries sector of the Indian economy encompasses in itself almost all of the products (including a large number of services) produced by the Indian industries within the economy. Most of the times the products produced by small and medium enterprises comprise of the intermediary products produced by the large scale industries. They also include semi processing units and processing units, which are an important link between exports and re-exports. Thus Small scale industries act both overall industrial sector of the Indian economy. Interestingly, the segment plays a crucial role in spreading the benefits of economic growth among the masses by drawing surplus work force from the form.

1.1.1. Role of Small Scale Industries in Economic Development

Small Scale Industries plays a vital role in the economies of developing as well as developed countries. India with a large reserve of surplus labour can generate employment opportunities in small industrial sector. The contribution of this sector is 40 percent of value added in the manufacturing sector. Small Scale Industries facilitates substantial foreign exchange savings and earnings. Further, they enable to utilize the resources and help to develop entrepreneurship. Small Scale Industries contribute significantly to strengthening and diversifying the industrial structure.

1.1.2. Significance of Small Scale Industries in Less Developed Countries

Small Scale Industrial units serve as an instrument in achieving a wide dispersal of industries. Further, Small Scale units serve as a means of bringing forth indigenous entrepreneurship and savings lying dormant, particularly in less developed countries. The Small Scale sector has a high potential for employment, dispersal of industries, promoting entrepreneurship and earning foreign exchange to the country.
In a labour-abundant and capital-scarce country like India, small-scale industries have come to occupy a significant position in the planned industrialization of the economy. Most small-scale industries have a low capital intensity and high potential for employment generation. Besides, the possess locational flexibility which serves as an effective instrument for achieving a wide dispersal of industries.

Small firms are quick in studying changes in tastes and fashions of consumers and in adjusting the production process and production accordingly. Small firms seem to have an edge in industries that call for personalized service, attention to detail and the flexibility to adapt quickly to changes in the business or technological environment.

Small enterprises are almost always locally owned and controlled, and they can strengthen rather than destroy the extended family and other social systems and cultural traditions that are perceived as valuable in their own right as well as symbols of national identity.

Small-scale industries play a key role in the industrialization of a developing country. This is because they provide immediate large-scale employment and have a comparatively higher labour-capital ratio; they need a shorter gestation period and relatively smaller markets to be economic; they need lower investments, offer a method of ensuring a more equitable distribution of national income and facilitate an ensuring a more equitable distribution of national income and facilitate an effective mobilization of resources of capital and skill which might otherwise remain unutilized; and they stimulate the growth of industrial entrepreneurship and promote a more diffused pattern of ownership and location.
1.2. DEFINITION OF MICRO, SMALL AND MEDIUM ENTERPRISES

(A) MANUFACTURING ENTERPRISES

(i) Micro Manufacturing Enterprises

These are the industrial units in which the investment in plant and machinery does not exceed Rs.25 lakhs (Rupees twenty five lakhs only).

(ii) Small Scale Enterprises

These industrial units are defined as those firms in which the investment in plant and machinery is more than twenty five lakh rupees but does not exceed Rs. 5 crores (Rupee five crores only).

(iii) Medium Manufacturing Enterprises

Medium manufacturing enterprises are those units in which the investment in plant and machinery is more than rupees 5 crores but not exceeding Rs.10 crores (Rupees ten crores only).

(B) SERVICE ENTERPRISES

(i) Micro Service Enterprises

These are the industrial units in which the investment in equipment does not exceed rupees 10 lakhs.

(ii) Small Service Industries

Small service industries are those units in which the investment in equipment is more then 10 (Ten lakh rupees) but does not exceeds rupees 2 crores.

(iii) Medium Enterprises

These industrial units are defined as those firms in which the investment in equipment is more than rupees 2 crores but does not exceed rupees 5 crores.

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1.3. GOVERNMENT POLICY TOWARDS SMALL SCALE INDUSTRIES

Indian Economy in 1947 was basically and structurally colonial with a very week infrastructure and industrial base especially in capital goods and a stagnant agricultural sector. The foremost task government was to achieve rapid industrialization within the framework of a welfare state. Therefore large, medium and small enterprises were assigned a mutually complementary role in order to facilitate an integrated and harmonious growth of the large industrial sector. The Government accorded a special status to small scale industries in the framework of Industrial Policy.

1.3.1. INDUSTRIAL POLICY OF 1948

The role of small scale industries was recognized by the industrial policy statement of 1948. It stated that Small Scale and cottage industries are particularly suited for better utilization of resources and achievement of local self sufficiency in certain essential goods. In essence, the Government recognized the basic dichotomy of Large Scale and Small Scale manufacturing units.

1.3.2. INDUSTRIAL POLICY OF 1956

A new thrust was imparted to the Small Scale sector after the adoption of the perspective plan of the Ford-Foundation in 1953-54. The Ford-Foundation committee proposed the basic structure for the administration of the Small Scale sector and recommended the establishment of small scale industries board. The board facilitates co-ordination and provides institutional linkages for the development of the sector. The Small Industries Development Organization was also setup in 1954 under the ministry of industries as an apex body to implement programme for over all development of Small Scale sector.
1.3.3. INDUSTRIAL POLICY OF 1977

The Industrial policy statement of 1977 expanded the list of products reserved for manufacture by small scale industries, a facility launched in 1967. The reserved item list was enhanced from 180 to 504 and further to 807 items. The Industrial policy 1977 classified Small Scale into three categories.

(i) Cottage and household industries which provide self-employment on a large scale.

(ii) Tiny sector in incorporating investment in plant and machinery up to Rs 1 lakh and situated in towns with a population of less than 50,000 according to 1971 census.

(iii) Small scale industries comprising of industrial units with an investment of up to Rs 10 lakhs and in case of ancillary units up to Rs 15 lakhs.

The policy proposed to setup in each district as agency called, District Industries Centre (DIC), the scheme was introduced in 1978, with the objective of providing under a single roof all the services and support required by small and village entrepreneurs.

1.3.4. INDUSTRIAL POLICY OF 1980

The 1980 policy recognized the importance of an ancillary industry and accelerated the development of rural and backward areas. The policy sought to harmonic the growth in the Small Scale Sector with that in the large and medium sectors. The emphasis in the new policy was on fostering the complementarity between the large and Small Sector. The investment limit for Small Scale Sector was raised from Rs.10 lakhs to 20 lakhs. Similarly investment limit for ancillary unit was increased from Rs 15 lakhs to 25 lakhs. The policy resolution reserved 833 items for the Small Scale Sector.
1.3.5. INDUSTRIAL POLICY OF 1990

The policy continued to give increasing importance to small scale increasing with the objective of employment generation. The investment ceiling in plant and machinery was raised to Rs 75 lakhs with a view to bring about technology up gradation, Programs will implemented under the Technology Development Organization (SIDCO). The Small scale industries Development Bank of India was established in SIDCO for entrepreneurship development programme to give training to women and youth.

1.3.6. INDUSTRIAL POLICY OF 1991

As part of the process of Economic Reforms and Globalization of the Indian Economy, the industrial policy of 1991 was accomplished by a set of separate policy measures for promoting small scale industries. The government of India for the first time, tabled the new small enterprise policy titled policy measures for promoting strengthening and supplementing small, tiny and village enterprises in the parliament on August 6th 1991. As per the 1991 policy, the reserved list in the Small Scale Sector was totally disbanded, equity participation by other industrial undertakings in Small Scale Sector was allowed and a new scheme of infrastructural development was introduced. The 1991 policy also laid stress on technology up gradation by setting up a Technology Development Cell and strengthening the facilities available with (SIDCO) Small Industries Development Organization. The policy favored promotion of making of Small scale industries products through institutions. The new policy measures introduced in 1991 also allowed equity participation of 24 percent in the Small Scale Sector by other industrial under-takings including foreign collaborators. This step was taken to enable small enterprises to access capital market and to encourage modernization and technological up gradation. Higher equity participation is
permitted in the reserved items if the proposal is accompanied by a commitment to export 50 percent of production with regard to the development of Small scale industries Sector. Several policy changes were effected in the post-liberalization period (1992-1999). Some of the policy changes are given below:

(i) Development of software technology parks in the private sector was permitted.

(ii) National Renewal Fund was set up to protect workers adversely affected by technologically up gradation and modernization.

(iii) An Act was passed by the parliament in 1993 to provide and regulate the payment of interest on delayed payments to small scale and ancillary units. The objective of Delayed Payments Act is to ensure Prompt Payment on goods supplied by small scale and ancillary units.

(iv) To enable Small industries to acquire ISO 9000 certification, a financial scheme was launched.

(v) Technology Development Fund Scheme to promote modernization and up gradation of technology was modified by raising the ceiling to Rs.50 million per unit.

(vi) Investment limit in plant and machinery was increased to Rs.30 million for Small Scale Industry units and Rs.2.5 million for tiny units.

(vii) Export obligation on non-small scale industries units manufacturing reserved items was reduced to 50 percent.

(viii) A package of facilities and incentives was announced for tiny sector.
The Definition of small scale industries was revised in 1999 by reducing the investment ceiling in plant and machinery from Rs.30 million to Rs.10 million\textsuperscript{16}.

1.4. STATEMENT OF THE RESEARCH PROBLEM

Small scale industries are viewed increasingly as an important vehicle for meeting both the twin objectives of growth and equity in a developing economy like India. Small scale industries, being labor intensive are believed to be able to provide more employment and earning opportunities for unskilled workers. They have the ability to accelerate rural industrialization by foregoing linkages. Small scale industries produce important backward and forward linkages with agriculture, using local resources, they ensure employment, stability, and save valuable foreign exchange by providing substitutes for imports.

Small Scale Industries tend to geographically more dispersed than larger enterprises and balanced contribute to promotion of more balanced development. The very wide distribution of existing small industry in India the greater pressure population and the shortage of capital have all tended to direct attention towards the small scale sector as a possible means of increasing output, employment in the country, in the next few decades.

Tamil Nadu is one of the most industrialized states and the third largest economy in the country. The state stands second in the magnitude of small scale Industry and has contributed significantly to the growth of the Small scale industries sector\textsuperscript{17}. It is necessary to assess the extent growth of employment, production, Investment in this sector. The trends have to be captured by identifying and examining the variables. In essence the impact of growth pattern of the variables affecting Small scale industries must be understood in a proper perspective. Taking this as the focal point, the present research has been

1.5. SCOPE OF THE STUDY

The study will help to highlight the role of Small scale industries, and its contribution to the growth of employment and production in Tamil Nadu and in All India. The study would help to examine the trends in growth and number of factories established, investment, employment and production. The study would bring out the need if any reorient small scale sector policies. The study enable the planners, administrators, academics, entrepreneurs, industrialist for the promotion and development of Small scale industries would help the government to formulate policies in the country.

The Government of India initiated the process of industrialization as conscious and deliberate policy of economic growth in the early fifties. No big effort was made during the first five year plan to industrialize the economy. A big expansion of public sector was envisaged during the second five year plan based on the Industrial Policy Resolution of 1956. The Industrial pattern in India is tilted towards the development of heavy industries. The process of industrialization with rapid expansion of large sector resulted in comparative neglect of the small and medium sector. The Annual Survey of industries 1977-1978 reveals the fact that the number of tiny units, small and medium enterprises is more than (95.6%) large and very large factories. The productive capital employed in tiny, small and medium factories is only 21.9 percent whereas the remaining 78.1 percent is in large and very large factories. However as P.C. Mahalanobis stated, “In view of the meagerness of capital resources, there is no possibility in the short run for creating much employment through the factory industries. The small industrial units require little capital and provide more employment in comparison with
corresponding factory industries. In spite of the stiff competition from the large scale sector plays a pivotal role in the Indian economy in terms of employment and growth”.

Industrialization is considered to be the corner stone of achieving rapid economic development and thus has a direct bearing upon the socio economic conditions of the people of a nation. There are controversies regarding the weight age to be given to the efforts in ushering in a process of industrialization as a strategy of the development policy mix. The advanced nations of today have achieved their current materials standards of living of the people essentially because of the industrial growth made possible by the great industrial revolution\textsuperscript{19}.

The nature and problems of industrialization of the developing countries which are pre dominantly agrarian, the role of industrial sector cannot be under estimated. A potential and diversified industrial sector can ignite and accelerate economic growth. Industrialization is a pre requisite for generating employment and achieving self-sufficiency and also for the accelerated development of agriculture and other sectors through backward and forward linkages.

The proceeding analysis makes it clear, that the Small Scale Industries have a key role to play in the Indian economy. However, small entrepreneurs in the country are facing genuine problems such as poor quality infrastructure, inadequate access to institutional credit, delayed payments by large industries, procedural delays in getting Government clearances, harassment by inspecting officers, rigid labor laws, technological obsolescence, non-availability of skilled manpower, lack of marketing facilities and difficulty in competing with well established foreign and national brand names. It has been observed by many experts and writers that one of the main problems confronting the growth of small
industry is lack of adequate finance. The availability of funds enables small
tenrepreneurs to have a command overall real resources\textsuperscript{20}.

The Government has given special concessions to the Small Scale
Industrial sector in the areas such as provision of credit by banks, excise and
purchase concessions by the Government and so on. Some products have been
reserved to be produced only by the Small Scale Industries as a measure to help
the units to thrive.

The financial institutions are not able to cope up with the needs and increasing
requirements of industrial sector. Particularly of small scale units who are not
equipped to represent their cases adequately to the concerned authorities. Recent
studies conducted to understand the increasing incidence of sickness among small
units indicate that the causes are mainly due to long delays and inadequate financing
by financial institutions. There is definitely a case for a detailed study into the role of
banks and financial corporations to bring about more efficient performance of these
institutions.

Traditionally, small industry has been dependent a conventional non formal
source of finance. But over the last four decades, India had sought to build up a
comprehensive institutional structure to meet the financial needs of small
industries\textsuperscript{21}.

1.6. OBJECTIVES

1. To study the growth and trend of Small scale industries in India and Tamil
   Nadu by major industry group wise for the period from 1998-99 to 2007-08.

2. To understand the productivity behavior in small scale industry.

3. To identify the determinants of productivity in Indian small scale sector.

4. To understand employment potentialities of Small Scale Industries.
1.7. RESEARCH DESIGN AND METHODOLOGY

1.7.1. COLLECTION OF DATA

The study is based on secondary data. The basic data required for the study were collected from the data published by Annual Survey of Industries (ASI) published by central statistical organization (CSO), Government of India. Since the study is based on Small scale industries (SSI) in Tamil Nadu and All India, the various issues of economic political weekly were extensively used. Relevant data have also been collected from RBI bulletin, books, journals, published and unpublished dissertations and working papers.

1.7.2. PERIOD OF STUDY

The study covers a period of 10 years, from 1998-1999 to 2007-2008. Separate analyses are done for each period to find out the growth of Small scale industries. Hence, such a classification will throw light on the implications on the productivity changes in the Small scale industries. The year witnessed new initiatives for strengthening the productive base of the economy and for improving more of Small scale industries in Tamil Nadu and All India. There was a substantial improvement in the overall rate of growth of Small scale industries during the year 1998-1999 to 2007-2008.

1.7.3. TOOLS OF ANALYSIS

The data have been analyzed by using suitable statistical tools. The statistical tools like Mean, Standard deviation, annual growth rate, compound growth rate, and analysis of co-efficient of variation were used to assess the trends. Trend analysis also been used appropriately to find overall rate of growth of small scale industries during the study period. An attempt was made to measure labour productivity using a multiple regression model. Again factors
determining employment were estimated using a multiple regression model. The obtained results of regression equation were tested by using relevant test statistics like ‘t’ and ‘F’. Durbin Watson was also used to identify the presence of autocorrelation.

1.7.4. SCHEME OF THE STUDY

The study unfolds as below:

**Chapter - I**  
Presents the general instruction of the study. It deals with the significance of small scale industries. This chapter also contains the scope of the study, objectives, research design and methodology.

**Chapter - II**  
Deals with the review of select studies related to the topic.

**Chapter - III**  
Is devoted to the analysis of growth and trends in small scale industries in Tamil Nadu and India.

**Chapter - IV**  
Presents the influence of small scale industries in productivity and employment.

**Chapter - V**  
Presents the major findings, Suggestions and Conclusions of the study.

The list of references and the tables used for the analysis are given as appendix at the end of each chapter.
REFERENCES


