Chapter One

INTRODUCTION AND RESEARCH DESIGN
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Small-scale industry has emerged as the most dynamic sector of the Indian industrial economy. Small-scale industries constitute the key link in the process of socioeconomic transformation of underdeveloped social structures. In the case of dominantly rural countries process of transformation either germinating within the rural segment or bringing the latter with in its orbit of influence will play a crucial role and should therefore occupy an important position in their development paradigm. Rural and urban processes are inseparably interwoven in the socio economic fabric and strategies of rural development can not be operationalised outside the total development process straddling the rural-urban continuum. Small-scale industry "constitutes a large component of the system of interdependences where in vertical shifts within the workforce from the primary to the secondary sector articulate the development process"¹.

The positive economic strategy in India, as a part of the mixed economy paradigm accorded a vital role for the small industry being assiduously fostered by public policy. The economic objective of dispersing and decentralising industrial activities in the country as a method of preeminent

or at any rate checkmating concentrative and monopolistic patterns of industrial ownership and production and stimulating employment opportunities in areas beyond traditional industrial agglomeration was unquestionably a sagacious approach.

Economic Considerations Favouring SSIs

The promotion of small industries has been regarded as an important element of the development planning in the country. The major considerations in promoting the small scale industries relate to some basic economic benefits viz;

i. Small-scale industries provide substantial scope for increasing employment as they are labour intensive.

ii. Small-scale industries require comparatively less capital. A study conducted by Ram.K.Vepa\(^2\) suggested that investment of Rs1 million in a small scale unit normally provides employment for 173 persons while employment for the same number in large industrial unit requires an investment of Rs.5.31 million. In a capital deficient country like India small scale industries provide the best alternative for solving the mounting problem of labour unemployment.

iii. Small-scale industries have lesser gestation period and can easily be set up in rural and backward areas.

iv. The small scale units have been contributing to higher value addition. The value added per rupee of fixed investment in a small unit is 0.96 as against 0.41 in large unit. Production per unit of investment in small scale units is estimated to be 5.60 as against 1.80 in large scale units.\(^3\)

v. The small-scale industrial units have accounted for more than 55 percent of industrial production while using only 9 percent of imported raw material. Thus small-scale industries help in saving foreign exchange in addition to earning a good amount of foreign exchange through exports.

vi. Small-scale industries require relatively smaller markets to be economical and hence they have an advantage in being set up as ancillary units.

vii. Small-scale industries stimulate growth of entrepreneurship and promote a more decentralized pattern of ownership and location. Hence, the small-scale industries

\(^3\) Ram.K.Vepa: Ibid p 3-4
are useful in removal of economic backwardness of rural and under development segment of the economy.

viii. Small-scale industries represent a stage in economic transition from traditional to modern technology.

**Small-Scale Industries And Capital Formation**

Small-scale industries can contribute substantially to capital formation in country. A given amount of capital generates more employment and value in small scale than in large scale industries. It is argued that though the propensity to consume of the people newly employed in small-scale industries would be high, it would nevertheless results in increase in their efficiency. Hence with an increase in their efficiency and productivity the rate of savings would eventually rise and capital formation would be promoted.

**Growth Dimensions of SSI Sector**

The small sector has emerged as a highly vibrant and dynamic sector of the Indian economy. It is one of the success stories of modern India. Its success is writ large over the face of the country and is visible all around. “Today the sector accounts for about 95 percent of industrial units, contributes about 40 percent of the value added manufacturing sector and over 33 percent of the national exports. Through over 28 lakh units spread over the country, the sector now provides employment to 160 lakh people; 28 lakh entrepreneurs along with 132 lakh employees are the destiny makers of the nation. The indirect employment created through forward and backward linkages is no less
important. The sector now produces 7500 items. 144 clusters in the country such as foundry in Agra, hand tools in Jalhandar, lock industry in Aligarh, brassware in Muradabad, hosiery in Kanpur, sports goods in Jallandhar, sewing machine components in Ludhiana, pottery in Khurja, etc., have emerged as new temples of India⁴.

Despite inaccessibility to economies of scale the small sector has survived due to its inherent strength and innate capability and the support that came through the developmental programmes of the government both at the centre and the state level. Small scale sector's growth rate has been higher than the growth rate of the industrial sector in the country.

**Table No 1.1 Growth Rate of SSI and Industrial Sector**

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<td>1999-2000</td>
<td>8.16</td>
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(Source: Laghu Udyog- Govt of India. p10, vol-XXV to XXVI, No 9, April-Sept 2001)

⁴ Dr.C.S.Prasad and K.C.Kaushik: 50 years of small Scale Industries in India. Laghu Udyog Samachar, Jan-Dec 1997, pp5-6, New Delhi.
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Problem Areas of SSIs

The small industry sector is in a serious state of crisis. The malady of unviability set in long before the liberalisation process began in 1991. A whole era of protection going back to the 1960s had put the vast majority 'Stand alone' SSI units in a dubious state of comfort almost in obstinate defiance of basic economic logic. In the late 1980s, 'sickness' had become endemic in the SSI sector owing to a combination of financial debility and mismatch with the larger industrial units were the more chronic deficiencies. The SSI sector was seen by the policy makers as the synonym for a stagnant constituent of the industrial economy which deserved to be kept on a 'life support system' more for social reasons than for any economic rational.

Impact of Economic Reforms & Globalisation on SSI Sector

Economic reforms that postulated competitive efficiency as the critical determinant of sustainable manufacturing operations have produced a disruptive impact on the SSI sector. Liberalisation of imports though with tariff duties that continue to remain high in India as compared to the South Asian economies has made the inherited policy of reservations for the SSI sector redundant. Globalisation and Liberalisation policies are bringing about rapid changes in policy and practice. Different sectors are being liberalised with dismantling of controls, quantitative restrictions, lowering the tariff rates, privatisation of infrastructure, easing of foreign investment, etc. Small and medium enterprises are required to cope with such structural changes in
environment. Agreements under the World Trade Organisation (WTO) involve multilateral obligations relating to reduction of tariffs, cutting of major subsidies incompatible with WTO agreements, trade related intellectual property rights, technical standards, etc., which limit the degrees of freedom that small and medium enterprises have enjoyed so far. Quantitative Restrictions on 714 tradeables are already removed by April 1, 2000 and the remaining 715 items by April 1, 2001. SSI\'s will also face cuts in conventional subsidies which are not WTO compatible. For SSI\'s many subsidies such as export promotion credit guarantee scheme, duty drawback scheme are being disputed under WTO rules and hence, the future of such subsidies becoming uncertain. The SSI\'s are expected to incur high cost as a result of TRIPS Agreement due to royalty payments related to copy rights and related rights, trade marks industrial designs, patents layout designs of integrated circuits etc.

The traditional weaknesses of the SSI\'s, technological inferiority, lack of marketing savvy, constraints of capital and credit aside from managerial resourcefulness- are becoming more transparent. In terms of the current travails of the SSI sector capital infusion and credit flow seem to be the real stumbling blocks. The striking difference between units that have been successful and those that have not related to management. "While many small entrepreneurs are technically sound their greatest bugbear has always been marketing. Though they devote sufficient attention to problems of production the marketing front remains neglected. As it has been aptly put "There is
market, but no marketing" Marketing entrepreneurship needs to be developed along with manufacturing entrepreneurship.

The SSIs in India are also facing the problem of delayed payments by the bigger industry. Schemes such as 'factoring' introduced by the Canara Bank and by SIDBI itself are helpful to some extent. SIDBI is also offering bill discounting facility to SSIs.

Market forecasting through proper techno economic research has been much lacking on the Indian scene. SSIs have to learn that sound financial management involves liquidity even more important than profitability. For continued survival balancing between profitability and liquidity becomes necessary.

Procurement of raw materials is another problem faced by the SSIs on the production front. The SSI, would be in a better position through their own cooperative arrangements by sharing scarce raw materials among themselves.

Inadequacies of State Policies

The concerns of the SSI entrepreneurs are not so much over the competitive challenge which may be posed by large industry as a consequence of the economic reforms as over the continued inadequacy of public policy in the matter of supporting the small industrial units with appropriate technical, financial and infrastructural means. Chronic shortage of power along with its indifferent quality, raw material constraints, working capital hassles owing to
inconsistent bank lending and the perennial blight of 'the Inspector Raj' continue to confront SSI units.

**Need For the Study**

The small scale industrial sector has been facing serious crisis both on production and marketing fronts. The traditional weaknesses of the SSIs are technological inferiority, shortage of power and raw materials, lack of marketing savvy, constraints of capital and credit apart from managerial inadequacies have been accentuated by the aggressive competition in the domestic market. Practically one out of every six units is either sick or unhealthy. The economic reforms coupled with the globalisation and post WTO scenario are likely to devitalise the small scale industries considerably. Unhindered entry of large firms both domestic and foreign are likely to impose pressures on the under equipped and under financed units in the SSI sector. Competition is going to be more vigorous in the wake of removal of quantitative restrictions (QRs) as per the WTO stipulations. In view of the various challenges facing the SSI sector the researcher felt the need for studying the various problem areas and the options and opportunities available to adequately overcome the constraints and to build up the inherent strength of the sector.

**Statement of the Problem**

Keeping in view the problems of the SSI sector in the new millennium the research problem is stated as under.

"Problems and Prospects of Small Scale Industries".
Objectives of the Study

The present study has the following objectives;

1. To study the organisational and management pattern of the small scale industrial units covered by the study.

2. To examine the capital structure and investment dimensions of the SSI units.

3. To analyse the production and production related aspects of the SSI units.

4. To ascertain the financial needs and the sources of finances of the selected SSI units and to identify the major financial problems with special reference to problems of working capital needs.

5. To analyse the marketing dimensions of the selected SSI units with special reference to the post liberalisation scenario and the impact of globalisation and the WTO.

6. To study the problems related to employment and labour in the SSI units.

7. To appraise the State policies and promotional measures towards the SSI sector.

8. To assess the future prospects of the SSI sector in the new economic scenario.

9. To analyse any other aspect germane to the study.
Hypothesis

The following hypotheses have been assumed by the researcher.

1. Power and raw material shortages have been the main production constraints to SSI units.

2. Inadequate supply of working capital and credit facilities from banks have invariably led the units to borrow from high cost private sources.

3. Scientific marketing strategies are not followed by the SSI units.