INTRODUCTION
CHAPTER - I

INTRODUCTION

Industrialisation plays a vital role in the economic development and therefore is being considered as synonymous with economic development. A policy oriented towards balanced regional industrial development is essential to ensure the benefits of industrialisation reach almost all parts of the economy. The developing countries of the world, like India, are facing several problems, viz., poverty, population explosion, low productivity, low incomes, technical backwardness, etc. These countries aim at rapid industrialisation to overcome such problems. Therefore, industrialisation is considered as the appropriate strategy for the development in these economies, and (Brij Bhushan, 1997) "it is considered as an effective mechanism of accelerating the tempo of economic development and raising standard of living of the people". Industrialisation has been defined by Sutcliffe (1971) as a process which has invariably been the outcome or accompaniment of economic development- a set of policies which, more than any other set of policies, is seen as a means towards economic development.

"In an under developed country with a backward agriculture and vast population, there is little choice but to give priority to the development of industries. The establishment of new kind of society (industrial) is easier than reformation of old" (Baran, P.A., 1988). "It is hoped that industrialization would
bring social transformation, social equality, higher levels of employment, more equitable distribution of income and well balanced regional development" (UNIDO, 1976). Industrialization has come to be regarded as a panacea for the current economic ills and also for the non-economic ills of the third world.

Industrialization will definitely help to broaden a country's economic base because it carries diversification further into a new area of activity. (UN Committee, 1963) "Industrialization is a process of economic development where an increasing proportion of home resources is mobilized to establish a technologically up to date and diversified economic structure. This economy is characterized by dynamical processing industry producing means of production and consumer goods suitable for making the fast development of the total national economy".

Industrialization accelerates economic development through structural transformation. Economic development implies significant changes in the sectoral composition of income and employment. And, by definition, industrialization involves fundamental changes in the structure of an economy both in terms of output and occupational pattern of workforce. As a first step, industrialization initiates shift away from the land-based agriculture and allied activities to the man and machine based secondary and tertiary economic activities. Such a shift, which moves workforce from the relatively low productivity economic activities to the relatively high productivity economic activities, accelerates economic development. Industrial development, which is the major cause of economic
development, gets concentrated in some regions and economic development, which is led by industrialization, takes place in the surrounding regions. Before independence, the pattern of industrial development in India was marked by a heavy concentration of industries in a few regions. Even after independence, when industrialization was accepted as a means of economic development, industrial investment started to flow towards the existing cities with industrial infrastructure while backward regions of the country continued to lie behind. Industries continued to be concentrated in and around the developed regions by concentrating capital, employment and income.

Development of industries in the backward regions is accepted as a means to reduce regional disparities as it is dynamic, flexible and has better potentiality for generating employment directly and indirectly through their backward and forward linkages with other sectors of the economy. Industrial development would create an impact on income levels and pull the region out of its backwardness and promote regionally balanced development.

"Decentralization of industries is necessary for balanced regional development in a country with several backward areas. Some of them have rich mineral potential or rich forest resources to augment the per capita income of the people. The tendency to set up industries in developed areas is encouraging exodus of rural population resulting in concentration of urban growth and environmental pollution, which needs to be dissipated for creation of new urban centres in under developed areas with a view to achieving better socio-economic growth (Mishra,
1991). It (Industrialization) is an effort in which the underdeveloped country place a major hope of finding a solution to their problems of poverty, insecurity and over population and ending their newly realized backwardness in the modern world (Bryce, 1960). 7

Four decades of post-independence industrialization has changed the structure and growth pattern of the economy by creating new growth centers and enabling new entrepreneurs to emerge. Both public and private sectors have expanded considerably and a comfortable heavy and basic industry base has been created along with the expansion of small-scale sector. In the meantime, small-scale industries relying on some modern or semi-modern machines also appeared in the cities and also in small and medium towns where the artisan castes began to shift to small-scale industry-mechanics, workshops, manufacture of metal, agricultural tools and electrical appliances, etc.

THEORETICAL FRAMEWORK

The term industry is “a group of firms producing a single homogeneous product and selling it in a common market. However, the restrictions of a single homogeneous product is not met in practice. Most of the firms produce many outputs which may or may not be substitutable for each other.” 7.1 A better approach to define the industry is to call it “a group of sellers or of close substitute output who supply (to) a common group of buyers.” 7.2 Wilson and Andrews defined the term industry in a different way. According to them “...an individual business must be conceived as operating within a ‘industry’, which consists of all business which operate processes of a sufficiently similar
kind, and possessing sufficiently similar backgrounds of experience and knowledge so that each of them could produce the particular commodity under consideration and would do so it sufficiently attractive. Industry may have a number of objectives but their central purpose is generally recognized as the organization of production for profit.

I) Optimum Firm:

Size constitutes one of the important elements determining efficiency of an industrial unit. Economists are concerned with the best size of a producing unit, viz., the optimum scale both of a firm and an industry. The optimum firm has been defined as a "firm in which existing condition of technique and organizing ability has the lowest average cost of production per unit, when all these costs, which must be covered in the long run, are included". In an ideal world all firms should grow up to the point at which they are making the most effective and economical use of productive resources, that is, all firms should expand until they reach their optimum size which would enable them to produce the optimum output at a lower average cost per unit than any other output.

The size of industrial units is generally determined by a compromise between the optima set by technical, managerial, financial, marketing, risks and fluctuations, and locational factors. If all these factors have the same optima then all the units in an industry may be expected to be of the same size. "A particular size may be the optimum under the then existing conditions of
technique or organization; but with the passing of time, change may take place in some or all of the factors, as a result of which the magnitude of the optimum firm under the new conditions may be different.\(^7\)

The above definition of the optimum firm presumes output level as size variable. In the context of cost output relations this is appropriate measurement. The firm is to be conceived here as a technical unit producing a homogeneous product. In the case of a multi-product firm, however, it may be difficult to identify a single product whose level of output defines the size of that firm. Alternative measurements of size can be used in this situation such as total sales, total assets, fixed capital, employment, profits and so on. These are absolute measurement of 'bigness'. \(^8\) Which one is to be used in practice depends partly on the context. If a firm is to be seen as a financial power than total assets or profits may be appropriate size variable. If the firm is to be looked as a market power then one may take market indexes of size not give the firm same ranking. Because of this reason there is sometimes difficulty in making appropriate choice of the size variable.\(^9\)

\(\Pi\) **Scale of production or Operation:**

'Production, then, is carried on by a large number of firms of different types and sizes, ranging from the smallest of one-man businesses with very little capital to huge joint stock companies. Every entrepreneur has to decide about the size of the unit and the scale of its operation. He should assess the financial and other facilities available to him and on that basis he should decide
whether he would start with a large size or should rest contented with a smaller size with the hope or plan to enlarge it in future.

A) **Economies of Scale:**

The scale of operation of industrial unit is largely determined by the decision about the extent of its size. The economies of scale associated with larger firms can be interpreted as determinants of the optimum size of the firm. The factors that affect the economies of the scale of the firm are discussed below.

1) **Technical Factors:**

This is a dominating category of factors causing real economies of scale in production. The major factors consisting the category are as follows:

a) **Division of Labour:** The entire production process which is composed of a set of interrelated activities is broken into a number of simpler operations and each one is assigned to a number of the working force who being a specialist for doing that operation can increase the output or reduce the cost of production considerably.¹⁷

The division of labour depends on the size of the plant. A small firm will be having less scope for division of labour as compared to a larger one. We may simply postulate here that larger the size, greater will be the scope for division of labour and hence greater productivity, which means gains from larger plants. In another way greater the scope for division of labour, greater will be the size of plant if economies of scale are to be realized. In order to get
advantages from the division of labour, the plant size has to be appropriately large enough.

b) **Indivisibility:** This is another technical factor, which is frequently cited as a source of economies of large-scale production. In the theory of production, we assume that the factors of production like men and machines are perfectly divisible. However, in practice such factors are indivisible. Such factors of production will cause economies with increasing output particularly in the short-run still they are fully utilized, without any additional expenditure on them”. If a firm is large enough, it will be capable of using the machines and men at their capacity levels. If they are not utilized fully, i.e. the divisibilities associated with them exist in practice, then there may not be any appreciable gain from the division of labour. In order to minimize the disadvantages of the inindivisibilities and gain the advantages of specialization, the firm has to acquire certain minimum size.

c) **Economies of Big Machines:** If the firm is large enough, it can profitably employ larger machines and equipment in production. There will be economies of scale in doing so, relatively lower initial and operating costs of larger machines than the smaller ones.

d) **The Economies of Linked Processes:** This is another technical factor, which causes economies of scale at plant level. When different heterogeneous processes are housed under the same roof, a firm gains from this arrangement. The firm saves certain vital costs like marketing costs, transportation costs and
packaging costs etc. If all of them are housed under the same roof, then, naturally, the size of the plant will be large enough.

2) **Managerial Factors:**

One man or few one can manage a small business run by a proprietor or few partners. In companies, however, a team of professional managers having specialization in different aspects of the business, like Finance, Marketing, Personnel management, R & D, Sales, Production control, etc, is needed. To utilise the capacities of the management cadre fully, the firm must have an appropriately large size, otherwise the indivisibilities existing, as a result of this will make the firm inefficient.

3) **Financial Factors:**

The size of a larger firm measured in terms of value of its assets will enable it to obtain long term finances and other credits at more favorable terms than a smaller firm. Greater the size of the firm, greater will be the confidence of the financial market in the strength of the firm, hence lower will be the risk premium, etc, attached to the loans as security coverage for that. Further, the credit institutions like bank and other finance institutions generally find it convenient and economical to deal with larger loans at a time which goes infavour of a small firm". 

4) **Marketing Factors:**

A large firm which needs larger volume of raw materials normally gets quantity and price discounts from the suppliers. The total value, which implies
5) **Risk Factors:**

A business is normally full of risks and uncertainties. A large firm can devise ways and means to fight all such risks and uncertainties. It will be able to diversify its products, its markets, and its source of supplies without losing much of the economies of large-scale production.

We have mentioned number of factors, which cause economies of scale in practice. In fact, there may be conflict in many situations. For example, technical factors support large size but marketing side may neglect it. Managerial side may favour but technical factors do not. Every thing depends on specific situations. There will be situations where large size is favourable and in some others smaller one. Let us now discuss the limits or diseconomies to growth of the size of a firm in general.

**B) Diseconomies of Scale:**

The limits or constraints to the size of the firm become operative when diseconomies of scale in production set in causing the average cost to rise. This is an inevitable stage which is bound to come sooner or later as the average cost cannot fall to zero; it may remain constant for a wide range of the size showing the constant returns to scale but eventually starts raising as the size of the firm increases further.”7,13 Because of such limit on the size we do not find a single firm producing the entire output of an industry barring a few
ones having extremely limited markets. The factors that contribute in limiting the size of a firm are generally discussed follows.

1) **Managerial Diseconomies:**

   In fact, the bigger the firm, the more persons are there to be informed, consulted and controlled and thus, the scope for control increases. It may be difficult to achieve managerial functions efficiently. This may strain the relations among them and thus there is very possibility of the firm's efficiency to be impaired by the recalcitrance, discontent, excessive real and over ambition of the individual administrative officials.

2) **Technical Diseconomies:**

   There will be some technical obstacles in expanding the size of the plant. Bigger the machines, greater will be the requirement of the space to house them. There is very possibility of having disproportionate growth of inputs when size of the plant expands over time. Such disproportionality eventually makes the average cost to rise upward because of diseconomies of scale.

Arguments in favour of small scale operation

3) **Lack of Initial Capital:**

   It may be difficult for a new firm to raise adequate money for investment initially which restricts its choice to go for a large size. In general,
financial constraint may be operative in limiting the size of majority of the firms in an industry.

4) Personal Limitations:

Entrepreneurial ability and ambition play an important role in business. Some entrepreneurs prefer small size for their firm as such firm can be managed effectively by them. They may not prefer the large size firm as that needs more efforts, new skills of coordination, loss of effective control over the business and so on. They may not like all these extra troubles because either they are incapable of facing them or simply feel satisfied with their income, power and prestige from the small business.

5) Social or Institutional Diseconomies:

Greater the size of the firm more will be its monopoly power in the market. A Government may not like to develop such situation, particularly in the private sector, as this will be detrimental to the interest of the society. To avoid concentration of economic power, the states normally regulate the size of the firms through legislations. Smaller or medium sized firms are preferred for the decentralization of the economic power and restrictions are put on the growth of the larger firm.
6) **Transport Costs and Market Density:**

The large firm has to pay higher transportation charges for getting the increased supplies of the materials from greater and greater distance if it expands its plants. Similarly, it has to pay higher transportation costs for selling its output to the more distant consumers. But there are certain commodities, which cannot be produced on a mass scale, because the demand for them is limited and hence the size of the market is also limited. After a certain optimal size of the plant, such transportation costs will be significant factors for restraining further growth of the size because of the diseconomies of scale.

7) **Labour Diseconomies:**

Greater the size, stronger will be the pressure from the trade union on the management of the firm. The union, because of its strength, may panelize the large firm for its size resulting in a welfare transfer of profits from the firm to its members in the form of higher wages etc. The entrepreneurs may prefer smaller plants at different locations rather than one large plant at a particular place.

The major diseconomies of scale to the size of the firm are discussed above. Which one dominates in reality or how much restriction each one of them puts cannot be said on priori grounds. It is purely an empirical enquiry to be examined with the facts.
III) **Organizational Structure of Units:**

Here, we will discuss the different organizational forms of the industrial units. This is because the organizational form of a unit or firm may restrict the choice of the goal or motive to be pursued.

A industrial unit may be identified on the basis of certain characteristics like the type of business it is doing, its size, the pattern of ownership, and so on. We can say that “When we take a firm as an ‘organizational’ unit rather than as a ‘technical’ one, than we will be able to integrate the marginal, the behavioral and the managerial approaches to study the firms economic behavior”. 7.14 Every industrial unit has its own organizational form viz., sole proprietorship, partnership, corporation or cooperative.

Sole proprietorship is the simplest kind of unit organization, which is owned and controlled by single individual. Alternatively, it is called “One man business”. It is suitable when the markets are limited and highly localized and the commodity or service is to be provided according to individual requirements. We can say that units “Which are under the same ownership, control or management to effect economics and compete well with large sized units”. 7.15

In partnership form of organisation, the unit is owned or managed by or controlled jointly by more than one person. All of them agree to share the profits of the unit.
But each type of organizational forms gets opportunities as well as constraints from the legal, financial and economic sides. It is important, therefore, for an individual investor to analyze the implications of these opportunities so that an appropriate choice of the type of organizational form can be made which will enable him to get the maximum gain from the unit. There is no single criterion on the basis of which the choice can be made.

One thing is clear now a day’s the modern technology has paved the way for large-scale production of many goods and services. Such thing cannot be taken up by a sole proprietorship or even partners. The only possibility for their manufacturing is the joint stock Company because of the financial, managerial and technological complexities. We may say, at the end, “that the choice or organizational form is very much a personal issue”. No specific guidelines can be laid down for this. If himself interests one in ownership and control of business than the sole proprietorship is best and the public limited company is unsuitable because of the complete divorce between ownership and management.

However, the sole proprietorship as well as the partnership being small units may get some benefit of doubt. Nothing can be said with confidence on this point. About the unit prospects or profitability in the different types of organization there is no a prior criterion for judgement. It all depends on the marginal efficiency together with the market opportunities available.

IV) **Marketing:**
A market is composed of buyers and sellers, exchanging goods and money. "The marketing activities carried on by a manufacturer of industrial goods are an integral part of the (industry) company's total operating system". It is usually helpful, however, to also think of market in terms of the channels that bring buyers & sellers together, as well as of the relationship between these buyers and sellers in the market place. A market system, therefore, includes at least three elements: participants, distribution channels, and relationships.

Producers and users of industrial products are linked by participants and industrial middlemen. These may be identified as manufacturer branches, merchant wholesalers or distributors and agents. This marketing system is linked by both direct and indirect channels. The direct channel is traditionally defined as "one in which the producer controls the distribution of his products from factory to user or customer." Normally this control is administered through the manufactures branch house or office, although some manufactures administer their distribution system direct from the home office + without subsidiaries. The indirect channel is identified by the presence of independent middlemen who limit the control a manufacturer can exercise over the distribution of his products.

The managers of a firm engaged in making and marketing industrial goods may achieve topnotch performance in determining marketing policy and in planning marketing strategy, but their efforts are likely to be wasted unless
they can develop an organisational structure to effectively implement the marketing policies and programmes.

Industrial marketing plans deal entirely with the future. The future may be good or bad, pleasant or painful, but it is always and forever uncertain and therefore, fraught with risk. Planning is an attempt to reduce its uncertainties and protect against its risks. Therefore, the essence of planning lies in an attempt to forces the areas of uncertainty, to appraise the chances or probability of the occurrence of various possible action that will take advantage of the beneficial aspects of those most likely to occur and avoid or minimize their damaging futures.

V) Sales Management:

Sales management is concerned with the planning, direction and control of sales forces activities. The primary responsibility of the sales force is to promote the organisations, product, but it may also be used to distribute the product, service the product and gather market intelligence.

Sales management is an important activity in the Indian marketing system where commercial firms as well as non-commercial organisations employ substantial field forces to promote and distribute products; to service and assist prospects, clients, and middlemen; to report on consumer preference and competitive activity, etc. with the increase economic and social pressure to enter rural markets, the importance of sales management is increasing; it is not possible for manufactures to rely entirely on the trade for developing the rural
markets. The increasing diversity of our industrial structure is also creating a need for more sophisticated methods of sales management. "Special selling skills are required in high technology industrial chemical intermediate industries, decentralized sector and small scale units, social programmer etc."719

Therefore, efficient size does not mean that one particular size becomes suitable for all the industrial enterprises in all of the areas. Thus, it may be different not only in different regions but also in the same region. The interaction of the technical, managerial, financial and marketing forces tends to bring about a number of optimum points at various stages of evolution of industry instead of securing one optimum firm. This is the reason that the small units continue to exist and even make good profits on widely varying sales of output.

SMALL-SCALE INDUSTRIES SECTOR

Small-scale industries sector constituted an important sector in India’s economy. Small-scale industries have played a strategic and significant role in promoting rapid industrial growth by providing greater employment opportunities, bringing about reduction in regional imbalance and removal of economic backwardness of rural and under developed segments of the country. SSIs are recognized as instruments of social transformation. Small-scale sector has emerged as pivotal and vibrant sector of the Indian economy over the
period, is buttressed by its 35 percent share in gross value of output in the manufacturing, 80 per cent in total industrial employment and 40 per cent in total exports from the country. Importance of small-scale industries can also be gauged from the fact that there were 27.24 lakhs industrial units in 1995-96 producing goods worth Rs.3,56,213 crores and providing employment to about 152.61 lakhs workers and earning foreign exchange to the tune of Rs.36,470 crores.

P.N. Dhar and A.F. Lydall (1961) observed that "the promotion of small-scale industries has been widely recommended as one of the most appropriate means of developing industry in overpopulated backward countries."

It is not that the government does not recognise the importance of small industries. Various incentives have been provided to licence, marketing assistance including reservation of production in certain categories, hire-purchase of machinery through the NSIC and SSIC, setting up of industrial estates, technical assistance programme through SISI, liberal financial assistance through SFC, and public sector banks, special incentives for location in backward areas etc. In addition to these there are other assistance provided by various state government such as capital subsidy, institutional finance at concessional rate of interests, participation in share capital, price preference, exemption from electricity duty, exemption from sales or purchase tax in rural areas and many others.

In India, industrial policies have been geared towards balanced regional development since independence. Since the early seventies, greater emphasis has been given to the objectives of balanced regional development of industries.
Certain areas have been identified as industrially backward and special schemes have been formulated to encourage the development of industries. In tune with the guidelines of the Planning Commission, the State Governments framed their above said policies of incentives to overcome the regional imbalances in the industrial development. But in spite of so many incentives schemes the small industries face a lot of problems and death ratio of small units is very high.

However, small-scale industries have had their share of problems from time to time. Many of the problems like lack of infrastructure, finance, marketing, inequitable allocation of scarce raw materials, low technical skill and managerial ability, shortage of power still continue to affect the small-scale sector. Ram K. Vepa (1971) opines that one of the main problems confronting the growth of small industry in most of the developing countries is lack of adequate finance. Further, he says that, even in relatively more developed countries, there is need for a large volume of credit to keep the small industry going. The working capital requirements of a small unit are relatively much larger than those of a large one. In addition, there is a need for long term lending to replace machinery and modernize facilities. The rate of obsolescence is high in the small-scale sector and there is no phased programme of replacement. This, in turn, pushes up the cost of production in that sector making the product uncompetitive both in the domestic and international markets.

The small-scale industries are plagued by a number of problems which often force these units to close down (Sandesara, 1993). The second all-India
census of registered small-scale industrial units conducted in 1987-88 (results published in August 1992) showed that of the 9.87 lakhs registered SSI units as on March 31, 1988, 3.05 lakh units constituting about 31 percent of total registered units had closed down. Thus almost one-third of SSI units had closed down; of these, 1.49 lakh units (i.e. one-half) had closed within five years of commencement of operations. Not only this, a large number of small-scale units is sick. As at the end of March 1996 about 2.62 lakh small-scale industrial units with outstanding bank credit of Rs.3722.2 crore were sick.

The incidence of industrial sickness has been growing in India during the last decade. It's not only traditional industries but even some of the important industries like engineering, chemicals, cement, electrical and paper have been affected. (Abid Husain, 1990) "Industrial sickness remains a cause for concern, specially in the small-scale sector. The reasons for increasing industrial sickness are many which can be attributed to both internal as well as external factors. Internal factors include faulty project planning, high rate of capital gearing, lack of forecasting, poor maintenance of plant and machinery and poor utilization of resources, etc. External factors include slow response to changing technology, labour unrest, shortage of essential inputs, restrictions on imports, market recession, power shortage, lack of skilled labour and government policies".

The incidence of sickness in the small-scale sector has been a subject of great concern and debate. As per the RBI report, the number of sick units including village industries was to the tune of 2,38,176 at the end of March 1993,
which rose to 2,68,815 by March 1995. Further, it declined to 2,20,594 by the end of March 1998. On the other hand, in terms of amount outstanding, it was Rs.3,443 crores at the end of March 1993 to Rs.3,843 crores by the end of March 1998.

The end result of “industrial sickness” or “industrial problems” is failure and ultimate closure of the unit. Some researchers have used bankruptcy as the end result of industrial sickness/problems. In Indian context, it is closure of the unit. Therefore, to identify the problems of small-scale industries, we must know the exact nature of industrial closure in small-scale industries.

REVIEW OF LITERATURE

Balakrishna (1961)\textsuperscript{13} analysed the financial experience of joint stock companies in the small scale sector and found that they had low carrying capacity due to high cost of production and high rate of interest.

Singh (1961)\textsuperscript{14} finds that, 35 per cent of units had borrowed from friends, 27 per cent from relatives and friends and 21 per cent from money lenders.

Mishra (1969)\textsuperscript{15}, in his study in Saugar district, found that industrialists preferred a bania (private money lenders) to a cooperative bank for meeting their financial needs in order to avoid the complicated formalities, cumbersome procedures and undue delay which generally went with the bank loans.

Sandesara (1969)\textsuperscript{16} used CMI (Central Ministry of Industries) data for 28 industries and found that for a given volume of investment, SSI units neither
generated more employment nor produced more output compared to large scale units.

Angadi (1971)\(^{17}\) None would deny to large undertakings the credit which is due to them for achieving large strides forward in industrialisation, and in providing the bread of industrial life. Yet there is no doubt that these large undertakings could not survive economically without an attendant mass of small industries to provide for them ancillary needs. It is the small industries that provide the “butter” and “jam” to spread upon the “bread” and only with proliferation to small industries can be industrial economy of the country be assured of stability and flexibility.

Ooman (1972)\(^{18}\) observed that the objective of creating more output and employment has not been achieved satisfactorily in the industrial estates of Kerala. The capital output ratio in the State of Kerala was higher than that of small factory sector and in certain cases, even exceeded that in the large sector. The capital labour ratio was also of a higher order in the estates compared to the small-scale sector, approximating to that in the large scale sector in some cases.

Ramakrishnan (1975)\(^{19}\), in his study in Delhi, found that entrepreneurs were prepared to pay higher rates of interest to non-banking sources to avoid bank formalities.

Singh and Gupta (1977)\(^{20}\) in their study, stated that, the banks have not been able to induce small artisans to benefit from banking finance. These small
enterprises possess tremendous responsiveness to bank finance, which is evident by their ability and willingness to obtain such finance and to offer the required security for the purpose. Financing of manufacturing activities of small units will not only prove advantageous to the banks and borrowers but would go a long way towards improving/boosting the industrial production and also economy of the country.

Bhave (1979) has recommended consortium be formed and follow some common strategy. The common factors to be considered are: (i) a common brand name, (ii) a common advertisement programme with a cess collected from members, (iii) a common network of distribution agencies, (iv) a standard system of discounts for the retailers/distributors commonly arrived at and (v) a common pool of funds formed for designing and development of the product.

Mathur (1979), on the basis of his study in Agra region, reported that finding adequate fixed and working capital was the greatest bottleneck in the growth of small industry.

Sapru (1979) dealing on the marketing problems of small-scale industries feels that, because of their small size and lack of resources, the small-scale industries, by and large, are unable to adopt modern marketing methods. He feels that, market research, market forecast, branding, effective publicity and even proper type of after sales service are beyond the means of many small industrialists. He concludes that unless small units in particular industries join
hands and build up their own marketing organization, it will be impossible for them to capture national markets and to compete effectively with large industries.

Deolankar (1982)\textsuperscript{24} affirms that, marketing is the primary responsibility of small-scale units and not that of the State because they are privately owned and marketing efforts depend essentially on the initiative of the owner or manager. He maintains that government can only assist and advise on such matters as quality, product, costing, pricing, promotion, selection of distribution channels or in evaluating contribution made by distribution intermediaries.

Korba (1982)\textsuperscript{25} makes a detailed study of marketing problems of small-scale industries units in his paper and concludes that structural limitations like inadequate resources for production, promotion and quality control as well as lack of marketing experience and know-how have kept marketing to a low profile.

Singarvelu (1982)\textsuperscript{26} makes a critical study of the role of state in the marketing of small-scale industry products. He maintains that in the procurement and execution of government orders, the accent should be on canalization of government purchases to the small-scale sector to ensure that substantial proportion of the government purchases are made from small-scale industries.

Bala (1984)\textsuperscript{27} has critically evaluated the government policies and their implementation in the perspective of the benefits and problems of the small entrepreneurs. The study is a comprehensive one covering loans, subsidies and assistance related to marketing, raw materials, machinery, consultancy and training.
of entrepreneurs and workers, power and labour policy. The data have been obtained by interviewing a stratified random sample of industrialists, workers and government officials.

Hanumantharayappa and Varambally (1984) have clearly pointed out that malnad region is industrially backward while agriculture has prospered in the district. Here, there is scope for the development of Agro-based industries. Authors conclude that "the main problem appears to be one industrial entrepreneurship and finance and it appears that it is a major constraint in malnad area.

Asher (1987) showed that the small sector is more efficient. The small scale factory combined the largest number of workers with a rupee’s worth of fixed capital; that a rupee worth of fixed assets produced almost seven times an output in small as compared to large industries and that the value added by a rupee worth of fixed investment in small factories was at least three times as large as that for a large factory.

Ghosh (1988) has argued that "a great deal of government support has in the past been directed, with some success in favour of modern small industry, while similar efforts to aid village industries have not succeeded in the same measure". The author finds that while there has been a phenomenal growth in the units' investment and output of the modern small scale sector falling within the purview of the Small Industries Development Organisation (SIDO), (a) this development has been concentrated in few metropolitan areas and large towns, and only a few of these units account for a substantial part of the total output of this
sector; (b) institutional credit has generally gone to a small percentage of small
scale units; (c) there is considerable under utilisation of capacity and sickness in
the small scale sector; (d) while the modern small scale sector does show a fairly
high overall rate of growth, the same cannot be said of the traditional crafts and
village industries in the “unorganised sector”. In any case, support by way of raw
material supply, easy credit and marketing has not been available in any significant
manner to traditional village industries; and (e) as a result, though employment in
the modern small scale sector has been rising, it is totally inadequate to solve the
problem of unemployment in the rural areas. Even in urban areas, the employment
opportunities in small scale industry have arisen mainly in the metropolitan areas
and a few other large towns and selected areas”.

Goldar (1988)\textsuperscript{31} compared, for 37 industries at the three digital level, the
technical efficiency of small scale and large scale industries for the year 1976-77.
He found that the SSIs (compared to the large scale industries) generally have low
labour productivity, high capital productivity, low capital intensity (measured as
capital per employee) and low total factor productivity. He inferred that the
modern small scale sector is inefficient relative to the large sector in a large
number of industries. He also found that the relative efficiency of the SSIs varies
directly with capital intensity, so that the SSIs cannot be relied upon as a source of
efficient employment generation.

Natarajan (1988)\textsuperscript{32} examined the various aspects of institutional financing
of small-scale industrial units in Andhra Pradesh. According to him, almost all the
problems of small scale units are found ultimately to centre around finances. He also examined the attitude of bankers in providing working capital finance to the small-scale industries entrepreneurs in the context of their socio-economic background.

Sandesara (1988). The main aim of author here is evaluation of progress in particular section of industries while dealing with growth phenomena. As an illustration, he traced on financial aid through five year plans, and it reveals that the prescribed amount increased from Rs.1960 crores in 1st Five Year Plan to Rs.180000 crores for seventh Five Year Plan. Further, he discusses the small-scale industrialization in different dimensions, i.e., growth, employment and investment. Author evolved the soul finding of less investment, employment and input and gets considerable output by small-scale industry. Hence, the sector has got intended priority in all five year plans of the country.

Khan (1989) makes an assessment of the development of small-scale industries in India. The sector has a sizeable weight in India’s index of production, employment generation and foreign exchange earning. According to the author, the value of export from this sector has increased rapidly. The major export from this sector relates to the marine products, readymade garments, woollen garments, leather products, engineering goods and drugs and pharmaceuticals. While lauding the role of government in the development of the small-scale sector, the author also mentions, the public sector expenditure on small-scale sector during the plan periods has significantly increased from 1st Plan to eight Plans. And government
provides market protection through the reservation of products, purchase preferences, financial assistance, up-gradation of existing technologies and increase in productivity, etc. The author also mentions a few problems being faced by the industry vis-à-vis marketing problems, growing incidence of industrial sickness, lack of standardization and trade mark facility, etc., which according to him, are hampering the growth of the sector. He suggests remedial measures like establishment of state marketing corporations in each state and identification of sick units and providing them relief. The author concludes that if all the facilities will provide to small-scale sector, like marketing protection, raw materials, standardization, financial assistance and adequate electricity for an essential prerequisite for combating poverty and unemployment in the country.

Tanulingam and Nataraj (1989) discuss at length various incentives provided by the government through its different Industrial Policy Resolutions aimed at encouraging the growth of small-scale industries. They assess the impact of these incentives through an empirical study undertaken in Madhurai district of Tamil Nadu and concluded that, the incentives have been quite successful in yielding the desired results. Their impact has been measured in terms of location, decision, investment, employment generation and capacity utilization, etc.

Khan (1990) in his study of “Sickness in industrial units in India” deals with various aspects of industrial sickness. An attempt has been made to unearth and duly analyse the possible causes of sickness and the measures introduced, viz., financial assistance of government agencies and other related organizations,
systematic security by banks, creating improved and favourable infrastructural facilities, modernization and rationalization introducing in industrial units, information media, government liberal policies, etc to combat the disease. He also concludes that coordinated concerted efforts can reduce the degree of industrial sickness and pave the way for steady growth of industrial units on decentralized pattern.

Bhavani (1991)\textsuperscript{37} finds that policies intended to favour small industries (reservation, financial incentives, etc.) are neither promoting employment nor improving the competitive base of small firms.

Rao (1991)\textsuperscript{38} observed that the factors responsible for the sickness of tiny and small industrial units and the prominent among them are management deficiency, inadequate and timely availability of finance, outmoded technology and marketing of production. Author concludes that here it is marketing which primarily holds the key to success of any units as huge unsold stocks play havoc with units. So training programme in modern methods of marketing will be helpful to small industries in upgrading their marketing technology on modern lines so as to avoid the disastrous results.

Goldar (1993)\textsuperscript{39}, in his study on employment growth in modern small scale industries in India, stated that within the manufacturing sector itself, small and decentralised sector contributes about four-fifths of manufacturing employment in India. Given the acute unemployment problem in India with backlog of unemployment estimated at around 17 million in 1992, creation of employment
opportunities will depend crucially on the development of small scale and cottage industries. This would be clear from the fact that while employment in the factory sector as a whole (large scale, medium scale and small scale) increased by only 2.21 per cent per annum over the period 1972 to 1987-88, employment in small scale sector grew at the rate of 5.45 per cent per annum.

Bhat (1994)\textsuperscript{40} ‘Infrastructure development and industrialisation – A case study of Dakshina Kannada’ depicts the importance for the development of transport, finance, availability of skilled labour etc. for the industrial progress. It mentioned or believed that regional industrial development can certainly promote infrastructure development in the region.

Ramaswamy (1994)\textsuperscript{41} affirms that non-household employment has risen while household employment has continued to decline. A significant finding is the rise in the share of non-factory segment, between 1981 and 1991, from 56 per cent to 65 per cent and decline of the factory sector from 44 per cent to 35 per cent within the non-household sector. The SSI sector, covered by the second census of such units (1987-88) is found to be small segment of the manufacturing sector. Its estimated share in employment and value addition in the manufacturing sector is found to be 12 per cent and 20 per cent, respectively. Increase in the estimated labour productivity is found to be significant over the period 1972 to 1987-88. Estimate of aggregate capital productivity showed a marginal decline. The resource use efficiency in the aggregate has not declined in the SSI sector. Author concludes that the production of reserved items is not a dominant production
activity of SSI units. Only 48 of the 843 reserved items figured in the list of 200 leading SSI products. Wages and labour productivity are found to be positively related. In 1987-88, wages are lower relative to the large-scale sector but labour productivity is not proportionately lower.

Arunkumar’s (1996) study reveals that ‘Bangalore is the main concentration point of Karnataka. The pattern is almost the same as that for large scale industries’. This concludes the need for some policies, which will be helpful in the diversification of the small-scale sector to other districts of the State.

Poojary (1996), in his study in Dakshina Kannada district, observed that the performance of SSIs in terms of the number of units, capital employed and employment creation. He found that the employment generated by the sector in the district was better when compared to state and national averages. Further, he stated that the intra-district spread of SSIs is very uneven and lopsided. A large number of units are concentrated in and around Mangalore urban agglomeration and in Udupi taluka. Author concludes that the programmes of developing SSI, if implemented correctly, with all the drawbacks would have brought us to the present impasse and the promised ideological solution of liberalisation.

Kulkarni and Kaveri (1999) have clearly pointed out that the amount of outstanding advances of scheduled commercial banks to SSI sector increased from Rs.31,364 million in 1980 to nearly Rs.229,670 million in the year ending March 1996. According to SIDBI survey, 31,297 SSI units were assisted through banks/SFCs in 1996. The total assistance provided to these units was to the tune of
Rs. 11,201 million. Authors suggested that the promotion of new units in large numbers, it is very important that they should not suffer from lack of the required capital and technology. In this regard, the supply of finance from banks and financial institutions should be on "need basis" and on liberal terms and conditions. SIDBI as a lead institution in developing the SSI sector should continue to work on a professional basis. While it should be delinked from IDBI, it is essential that its products become customer friendly. Its working style should be like a Joint Stock Company and not a rule bound bureaucratic organisation.

Prabhath (1999)\textsuperscript{45}, in his study, finds the problems of SSI units, such as lack of access to capital market, inadequate working capital, venture capital in its infancy, coordination of support services inadequate, high transaction cost, poor business services from government institutions, simplification of procedures needed, lack of access to technology and competition within the sector. In this way, author concludes that the entrepreneurs face problems which hinder effective availment of assistance under various government programmes.

Ramesh (1999)\textsuperscript{46} concludes that in most of the countries, the policies and strategies for industrialisation have been reformulated with a special focus on small and medium entrepreneurs. The role of government in India in developing the SSI sector is being transformed from being mainly a 'provider' to being an 'enabler'. There has been a paradigm shift in the policy framework after 1990s, in favour of 'development' rather than 'protection' of SSI sector. The role of the government therefore is increasingly becoming that of a 'coordinator' to create an
enabling environment for the growth and development of the SSI sector. In India, private sector agencies have been found to be more effective in delivering services to SSI sector than government sponsored extension agencies. Private sector can play a crucial role in research and technology upgradation, information, marketing and infrastructure. As also for better effectiveness of development programmes with minimum cost, the centre-piece of the policy for SSI has to be “cluster”. It is well established that “competitive edge”, an outcome of effective supply and utilisation of credit, technology, information and R & D can be ensured only in cluster. Further, author finds that financial problems like inadequacy, delay, improper assessment of credit requirements and procedural difficulties. In this regard, author suggests that the disbursal of composite loans through single window, specialised financial and non-financial services through specialised SSI branches, factoring services and venture capital support should be taken upon priority basis. Financing agencies should be extending their support services like information, marketing, consultancy, R & D.

Ramesh (2000)\(^47\), in his study, reveal that the per cent share of credit for SSI sector to net bank credit for SSI sector has increased to touch 16.6 per cent in 1997 from 15.9 per cent in 1991. During 1990-91 to 1996-97, the compound growth rate for credit to SSI sector has been relatively high (12.24%) as compared to the growth in net bank credit (11.27%). However, the growth rate of bank credit has been low as compared to the growth rate of production from SSI sector, which works out to be 17.79 per cent for the same period. Further, the total institutional credit as well as working capital as percentages to total production from SSI sector
have indeed declined during the above period. The author concludes that the banking sector has in way of financing to SSI sector, failed to meet the increasing credit requirements of SSI sector. Alongwith increasing institutional credit to SSI sector, the inter-state disparities in the distribution have also widened. The banks’ credit to Artisan and village industries sector has shown relatively low growth rate and the inter-state variation has been relatively low as compared to total SSI credit. The ratio of credit to output indicates that the states of Madhya Pradesh, Bihar and Orissa are extremely credit deficit states. The credit from SFCs has (term credit) shown relatively higher growth rate as compared to bank credit (short term), there seems to be a sort of complementary relationship between banks and SFCs in financing SSI sector. Thus, author suggests that it is essential to take cognisance to these aspects while framing policies and programmes to augment the flow of credit as also to reduce disparity.

The study by Satyaprasad (2000) reveals that unregulated growth of large-scale industry results in concentrations of economic power in a few hands and consequently gross inequalities in the distribution of income and wealth. But SSIs bring about greater equality of balanced regional development and income distribution. Importance of SSI units in reducing the pressure on the country’s balance of payments in two ways. Firstly, they do not require imports of sophisticated machinery or raw materials. Secondly, SSIs earn valuable foreign exchange through exports, which account for 45 per cent of the total industrial production. In view of India’s scarce capital resources and abundant labour, SSIs are highly suited to tackle the unemployment problem. More than 18 million of
artisans, technically qualified and professional were employed in SSIs in India. Author concludes that the effective marketing, vision, strategy, technological leadership, pioneering efforts, sheer grit and determination, professionalisation and benchmark management practices can lead the SSIs to prosperity.

Krishnamurthy and John (2001)\textsuperscript{49}, in their study stated that SSIs in India are now facing more threats for their survival than ever before as the Indian economy has been participating open market economy from the year 1991. It results in severe competition from MNCs for local industries including SSIs. The post-era of liberalisation and globalisation puts lot of pressures on the existence of SSIs. As the Indian small industries don’t have right type of infrastructure to face the competition, some of them may become sick units and the rest may become unviable units. On the other way, SSIs are subject to hardship due to the policies of WTO on its member countries. India is open to free imports of many consumer goods, which in turn affect the SSIs here as these goods are exclusively reserved for production by SSI units. In this way, SSI units are facing yet another competition on account of lifting quantitative restrictions on imports of 714 items of goods by the government of India towards fulfilment of WTO regulations. In the case of another 200 consumer goods, the government is going to put them on open general licence category before 1\textsuperscript{st} April 2001. Hence SSI sector is now on the verge of collapse. The authors suggested that the process of liberalisation and globalisation may be implemented gradually by the Indian government for the sake of the small scale sector. Therefore, the government will have to extend the present subsidy, other credit facilities and to safeguard the interest of the SSIs. India,
along with other developing countries, should also convince the WTO insisting the need for retention of quantitative restrictions and other trade barriers for import of goods for some more time. Such measures and supports on the part of the government are required for the SSIs to ensure their continuous existence and their prosperous development.

Muzaffar and Khan (2001)⁵⁰, in their study, observed that the RBI report on all India bases the total outstanding bank credit to sick industries at 13.3 per cent of the total bank credit to these units. There are around 12 lakh workers involved in these sick companies. As many as 593 rehabilitation schemes were sanctioned by the Board for Industrial and Financial Reconstruction (BIFR) up to December 1996. The BIFR has admitted facing a problem regarding the sanctioned rehabilitation schemes. With the reopening of almost 45 per cent of such sanctioned revival cases being declared sick again. Further, they found that, the main causes for sickness of SSI units include deficiencies in planning, management, marketing, technological obsolescence, timely modernisation, loss of market and over and above the work culture, which comprises good corporate culture, etc. In this way, authors observed that the ill effects of the industrial sickness, such as loss of production, loss of employment, loss of revenue to central as well as the state government and locking up of the investible funds by the financial institutions are of serious concern to the society at large and detrimental to the national interest. Therefore authors suggested that the absolutely unviable units should not be financed and encouraged. Defaulting small units should be punished as per the law to discourage further increase in such type of units.
In the preceding discussion, some of the important empirical studies conducted with special reference to the small-scale industries in various areas have been reviewed. However, there have been contradictory results that emerged from these studies. For instance, some of those studies are in favour of the financial and marketing support given by the government, while some others are against. On the other hands, certain studies conclude that the SSI sector is efficient, whereas certain other studies opine that the SSI sector is inefficient.

This section documents the statement of the problem chosen for the present study and lists the main objectives, hypotheses and key concepts used. Further, it also present information about methods of data collection and small-scale industrial settings in Bijapur district.

**STATEMENT OF PROBLEM**

The condition of small-scale industries is not so well. Particularly, one out of every six units is found to be unhealthy or sick. Chronic shortage of power, raw material constraints, working capital hassles owing to inconsistent bank leading, management failures and other problems have been experienced by small-scale units.

Inspite of provision of several incentives and concessions by the government for promotion of SSI, the growth of SS Industrial units in Bijapur district is not so satisfactory, and the district is considered as industrially backward.
According to the government of Karnataka Industrial Policy, so far, no systematic study has been done on the problems of SSIs in the district.

Nature of the problems faced by different categories of SSIs will logically be different from each other. The various problems of the SSIs need to be identified and critically analysed before actually suggesting any measures to develop these SSIs. Thus a systematic study to find out the particular problems encountered by different categories of units is needed. This kind of study will help the government to provide incentives and concessions, because, based on the nature and extent of problems faced by the SSIs, the nature and extent of incentives and concessions offered by the Government should vary. With such an approach only, the balanced regional industrial development could be achieved. With this background in mind, the researcher undertook the following investigation: “Problems and prospects of modern small-scale industries in the North-Karnataka Region — A case study of Bijapur district”.

OBJECTIVES

1. To examine shift’s in India’s small industry policies and their impact on the growth of Small Scale Industrial sector.

2. To study the growth of small scale industry in Karnataka.

3. To study the organizational structure of small scale industrial units and to analyze the relative performance of units in terms of investment, value of production and cost of production.
4. To study different sources of finance and to analyze the impact of interest rates and subsidy on production and profit of small scale industrial units.

5. To study price determination practices and to analyze marketing problems of small scale industrial unit; and

6. To suggest the policy measures for improving the performance of small scale industry units.

HYPOTHESES:

1. High rate of interest and inconvenient number of installments are the major problems in obtaining working capital for SSI units, which has in turn affected the production of SSI units.

2. Shortage of raw materials and power have caused decline in growth of production of SSI units.

3. Price competition among the SSI units and imports of substitutes have caused sickness and closure of SSI units.

METHODOLOGY

KEY CONCEPTS

In this research study, certain key concepts have been used for the purpose of collection and analysis of data such as:
Small-scale, tiny and ancillary industries

It is used to classify industrial units on the basis of the investment in terms of their capital. Thus on this basis, the following types are arrived at.

Industrial undertakings having investment in fixed assets in plant and machinery, not exceeding Rs.5 lakhs are considered as tiny industries. Industries with an investment not exceeding Rs.50 lakhs and Rs.60 lakhs, respectively, are considered as small-scale industries and ancillary industries. This definition is based on the norms adopted by the government of India for classifying small-scale industries.

**SAMPLING PROCEDURE**

The universe of the study constitutes all the small-scale industrial units in Bijapur district. To estimate the actual size of the sample universe, a general list of small-scale industry units along with their addresses was prepared by collecting data from the available material from the District Industries Centre (DIC), Bijapur.

Keeping the scope of the present study in mind, the small-scale industry units were stratified into six well defined categories, namely, Food Products Units (41), Mineral Products Units (39), General Engineering Products Units (9), Rubber and Plastic Products Units (1), Metal Products Units (4) and Printing Products Units (3).
This categorization is based on the one made by the Khadi and Village Industries Commission. It was adopted with slight modifications to suit the needs of the study. The primary data was collected from 97 SSI units. The 97 respondents constitute the sample for providing the data.

**SOURCES OF DATA AND DATA COLLECTION**

The main source of the data used in the present research are two: (i) Primary data and (ii) Secondary data.

i) **Primary data**

In the present study, the primary data was collected with the help of a structured, closed ended interview schedule from the sample units.

ii) **Secondary data**

The secondary data relating to the various parameters like number of units, employment, investment in Bijapur district, Karnataka State and India was obtained from authoritative sources, such as:

1) Development Commissioner, Small-scale Industries, New Delhi.

2) Directorate of Industries and Commerce, Government of Karnataka.

3) District industries centre (DIC) Bijapur.
Besides, information was also obtained from published articles in professional journals, plan documents and published theses.

SCOPE AND LIMITATIONS OF THE STUDY

Considering the time frame and the constraints that come in the way of research due to certain local condition, the researcher has set the following guidelines for the scope of research.

1. The scope of the study is limited to small-scale units, where the investment in plant and machinery is Rs.5 lakhs to Rs.60 lakhs. In other words, the study does not cover the tiny and ancillary units.

2. The study considers only registered units with DIC. Unregistered units do not form part of this study.

3. The study also attempts to examine the entrepreneurs engaged in the manufacturing and servicing of six product groups to facilitate an in-depth study.

4. One of the serious limitations of the present study is that it covers 5 years from 1993 to 1997. Government of Karnataka has divided Bijapur district into two districts, one is Bijapur district and another one is Bagalkot district on August 15th 1997. Therefore, the present study covers the undivided Bijapur district consisting of eleven taluks.
The whole study has been divided into seven chapters.

The First Chapter "Introduction" provides a general introduction of the topic of study. It also specifies the methodology used for the collection of data. Objectives and limitations of the study and the review of literature etc., form other aspects of this chapters.

The Second Chapter deals with the growth and structural aspects of small-scale industries in the country. Policy formulations under the Five Year Plans and other important declarations by the government and incentives and institutional arrangements for the small-scale industrial units are also discussed in this chapter.

The Third Chapter deals with the growth of small-scale industries in the Karnataka state. The issues dealt with in this chapter are: Industrial policy resolution and small scale industries in Karnataka state, incentives and concessions offered to small scale industries, growth of small scale industries and Five Year Plans of the state and institutional arrangements for the small scale industrial units are also discussed. In this chapter profile of Bijapur district, reflecting the socio-economic features of the district and industrial environment of the district and it covers special advantages and facilities for the growth of small-scale industries units are also presented.
The Fourth Chapter is devoted to analyse (provides) a general profile of the selected small-scale industrial units in the Bijapur district and an analysis of financial and product related problems of these small-scale industrial units.

The Fifth Chapter contains a detailed analysis of the market related aspects of marketing problems of small-scale industrial units in the area covered by the study.

The Sixth Chapter deals with future prospects and incentives and concession offered to small-scale industries covered by the study.

The Seventh and last chapter provides a summary of major findings and suggestions to promote the growth and to ensure better prospects of small-scale industries in Bijapur district for improvement.
REFERENCES


