Chapter - I

INTRODUCTION AND RESEARCH DESIGN

Small scale industries constitute a low cost strategy of economic development and equity. Small Scale Industries play strategic role in restructuring and transformation of the economy. They have a comparatively higher labour-capital ratio. SSI units need a shorter gestation period and relatively smaller markets to be economic. They involve lower investments. SSI units offer a method of ensuring more equitable distribution of national income and facilitate an effective mobilization of resources of capital and skill which might otherwise remain unutilized. Small Scale Industries stimulate the growth of industrial entrepreneurship and promote a more diffused pattern of ownership and location. SSIs have huge potentials of job creation and development of rural / semi urban areas. They make use of more unskilled labour force and have direct impact on poverty alleviation. SSI units have the impact of spread effect on domestic market since they buy more domestic inputs and indigenous raw materials and domestic technology to a large extent.

Small scale unit in India is defined by the criterion of capital investment. The investment limit for small scale unit is set at Rs. 10 million of which the investment limit for the tiny sector is Rs. 2.5 million. This is unlike many other countries like China, Japan, Germany, Indonesia, Iran, Turkey etc., which go by the number of employees as a criterion for identifying small and medium scale units.
In USA small business is one which has employment of less than 500 people, in U.K it is less than 20 skilled worker, in Germany less than 300 workers in Sweden and Italy less than 50 and 500 people respectively.

**Product Range:**

Small scale sector in India covers a wide spectrum of industries categorized under small, tiny and ancillary segments. The sector encompasses the continuum of the artisans / handicrafts units at one end and modern production units with significant investments on the other producing a wide range of over 7,500 quality products. The products involve very simple to highly sophisticated technologies and offering opportunities for the utilization of local resources and skills. The sector has emerged as a major supplier of a variety of mass production as well as parts and components to the large industry sector. In addition to handicrafts, and other traditional products the SSI units manufacture some high value added and sophisticated products like electronic typewriters, electronic survey equipments, security and fire alarm systems, television sets and other consumer durables. Many products of the SSI sector are used as original equipment items by the manufacturers in the large industry sector. SSI sector has the flexibility of responding in varied needs of the economy.

The SSI sector covers a wide spectrum with two clearly identifiable segments viz., modern small scale industries including tiny units and power looms and traditional industries like khadi and
village industries, handlooms, handicrafts, sericulture and coir industry. Both the segments have their own special characteristics in terms of capital / labour intensity, locational orientation manufacturing processes and skill requirements.

**SSI Sector's Contribution to Development of the Economy**

Small scale and cottage industries in less developed countries (LDCs), usually employ around 80% of the entire industrial work force of the country. However most of the value added, varying from around 40 to 70 percent routinely originates from only few industries, usually food and beverages, jewellery and gems, leather and leather products, jute and jute products, textile, furniture, wood products and handicrafts indicating the narrow base of the SSIs in the economy. In advanced countries SSIs are found in a wide array of industries.

In India, small scale industries (SSIs) account for 95 percent of the country’s industrial units, 40 percent of the industrial output, 80 percent of the employment in the industrial sector, 40 percent of total exports and 7 percent of net domestic product.

**All India Census of SSIs:**

The Third All India Census of Small Scale Industries which announced its results in August 2004 is the latest authentic source of information on the sector. The size of the small enterprise is around 10.52 million units, of which 4.45 million are defined as SSI under the official definition. The total employment contribution of the sector is 24.93 million with a per unit contribution of 2.37. The export contribution of the sector is Rs. 14,199 crores and the number of
exporting units 50,606, Out of 878 items reserved for the sector only 672 are actually produced by SSIs.

The Census shows a decline in small manufacturing units during the inter-censal period in favour of service enterprises. The figures relate to per unit as an indicator of enhanced capital intensity in this sector. But a desegregation of units according to utilization of key inputs such as bank credits and energy indicates a dismally poor picture of growth performance of the sector.

**Areas of Concern:**

The small industry has become a subject of much less policy interest. Industry associations have become much less articulate. Proactive enterprise promotion activities of the Government and of the development finance institutions are showing a serious slowdown. Further small industry is a state subject. Obviously initiatives mooted by the state governments mean a lot in industrial development in a regional setting, given the poor financial position of most state governments the allocation available for SSI development are far from adequate.

**Factors Causing Vulnerability of Small Scale Industries:**

A host of factors have caused the vulnerability of SSI units. They are:

- Low capital base
- Difficulties in accessing technology
- Credit constraints
- Low access to business services
• Constraints of quality of human resources
• Low awareness Low lobbying capacity

**Exogenous Forces Impacting SSI Performance:**

The major exogenous forces influencing the performance of SSIs relate to:

• Advancement in generic technology of computers and telecommunications.
• Rise in electronic commerce.
• Globalization and liberalization policies including unilateral liberalization.
• Multilateral trading rules under agreements of WTO.
• Bilateral/Regional Agreements.
• Mergers and Acquisitions.
• Labour and environmental standards/lobbies.
• Liberalization of services/infrastructures. Sourcing out of activities to outside firms.
• Growth in world demand for a variety of services.

The exogenous forces influencing the performance of SSI are both direct and indirect coming from multiple sources and are influencing the policy environment within which the SSI and other firms operate. Such forces impacting on small scale industries are exposing them to a world of intense competition, risks and uncertainties, technological progress, mandatory and voluntary standards through creating a whole range of opportunities in the
process for those enterprises which are less handicapped and are more adaptable.

Problems of Viability of SSI units and the Need for the Research:

Small scale industrial units are an important part of the manufacturing sector in India. Despite its substantial contribution the SSI sector has been under great stress from both internal and external factors which have a challenging effect on the viability of the SSI units.

The SSI sector appears to be hurtling down the path of sickness to probably to its death. The latest Census reveals that as of March 2001 out of 23.6 lakh registered small scale units, 8.7 lakh or close to 40 percent have closed down permanently. Another 15 percent have gone sick. Job losses varied from 1 crore to 1.95 crore.

It is mentioned by the leaders of SSI movement that two reasons are mainly responsible for this viz., lack of demand and lack of finance. Lack of demand has occurred mainly because of imports and de-reservation.

Until recently the high protectionist walls surrounding India’s SSIs helped them to cope with big business, globalization efforts of the transnational firms and the progressive liberalization under WTO dispensation. Such protectionist walls are now becoming increasingly vulnerable given the fast changing policy-scenario towards liberalization and globalization, thus making rules of business compatible with agreements under WTO. The new millennium for the Indian SSIs will be structurally different from the earlier decades in
terms of the geo politico-economic environment within which they are required to operate.

The various constraints and factors causing the vulnerability of the SSIs have led to the doubtful viability of the these units in the economy. The researcher felt that there was a need to probe these various factors that have been operating and affecting the viability of the SSI units in the study area. Secondly inadequate research studies in the area on this aspect was also a reason for undertaking the present study by the researcher.

**Objectives of the Research study:**

The present study has the following objectives.

1. To study the financial and operational dimensions of the small scale industrial units covered by the study in the study area.
2. To examine the physical and manpower magnitude of the study units.
3. To ascertain and assess the problem areas relating to production and physical inputs of the study units.
4. To study the market and marketing related issues of the SSI units covered by the study.
5. To evaluate the overall viability position of the SSI units covered by the study.

**Hypotheses:**

The following hypotheses were assumed for the research study.

1) Shortage of power and raw materials led to under utilization of production capacity by the SSI units.
2) Own funds have been the major source of finance for the SSI units.
3) SSI study units have not faced marketing problems.

**Methodology of the Research Study:**

The present study is an empirical survey of related small scale industrial units in Bagalkot district. The study is based both on primary and secondary data.

**Selection of the Study Area:**

The study covers four talukas of Bagalkot district viz. Badami, Bagalkot, Hungund and Mudhol. The talukas were selected on the basis of the number of SSI units spread over the district and the concentration of the units in the selected talukas.

**Selection of SSI Units:**

A total number of 100 Small Scale Industrial Units have been covered by the research study. A total number of 25 SSI units have been selected from each taluka on the basis of the predominance of the particular type of SSI units in each taluka.

**Database:**

The Primary data is collected from 100 SSI units covered by the study. The data is collected as per a pre-tested questionnaire. The researcher obtained the data from the respondents through personal interviews during the field survey. Secondary data was collected from the relevant publications of the State and Central Government agencies.
Data Analysis:

The data analysis and interpretation is done by using simple statistics tools like percentages averages etc., for arriving at proper inferences and conclusions.

Review of Literature:

Literature on small scale industries in India is large and on varied aspects. A few selected writings on the subject and relevant for the present research have been reviewed here.

Vasant Desai (2002) in his book “Small Scale Industries and Entrepreneurship” has provided a new insight into small scale industry which is playing a catalytic role in the rapid development of the economy. The author has highlighted the basic and inherent strength of the SSI sector in terms of its potentials for high labour employment, low capital requirement, flexibility in adopting to demand from the consumer as well as production needs, capacity to help and promote regional dispersion of industrial activity, low input content and environment friendly. Taking into account the rapidly changing economic environment in the new WTO dispensation, globalisation and liberalisation the author has suggested for inducting greater competitive strength of the SSI units. The author has suggested for a (i) sound policy environment (ii) encouraging foreign investment to infuse additional resources and technology (iii) simplification of industrial legislation (iv) streamline administrative machinery (v) strengthen delivery (vi) prevention of delayed payment (vii) rehabilitation of sick units (viii) technology upgradation
Ram K. Vepa (1988) in his book “Modern Small Industry in India-Problems and Prospects” has identified some key areas, which, he argues, need greater attention on the part of policy makers if the small industry sector is going to successfully meet the challenges posed by modern technology. These areas according to Mr. Vepa include technology support, credit flow, and market assistance. The author has pleaded for micro planning at the field level. Dr. Vepa has provided a comparison of India's strategy for the development of the Small Industry sector with that adopted by Japan and China.

P. M. Mathew (2005) in his article “Small Industry-waiting for a New Deal” has observed that the experience from globalization and economic liberalization indicates the need for a new policy approach to the development of small and medium enterprises (SMEs) in a new regional setting. The author has indicated that the liberalization policy kick started in 1991 involved major changes. The socialistic pattern of society give place to an era of market driven policies. The political economy dimension of small industry development was significantly replaced by simple economics which focussed on “competitiveness of golden rule”.

Neela Mukherjee (2001) in her article ‘World Trade Organization and Small and Medium Enterprises from a Developing Country, perspective A study of Indian Small Scale Industries’ has maintained that for the Indian SSIs (SMEs) the new millennium will be
structurally different from the earlier decades in terms of geo-politico-economic environment within which they are required to operate. She perceives that the “goodies” that were earlier bestowed up on this sector are threatened and now almost obsolete in terms of the new rules of WTO and the globalization paradigm.

The author has observed that the vulnerability of the SSIs is due to host of factors. Such vulnerability of the SSIs is due to host of factors. Such vulnerability issue is especially crucial given the low capital base of such industries low level of technology, little or no economies of scale, limited human resources, credit constraints, limited opportunities for marketing low accessibility to business services and little or no capacity for lobbying and advocacy. The author has also mentioned some exogenous factors influencing SSIs performance. Viz., advancement in generic technology of computers and telecommunications, rise in e-commerce, globalization and liberalization policies, multilateral trading rules under WTO, etc.

Sudhir K. Jain (2001) in his article “How can Indian SSEs meet the challenges of Globalization? has considered the compliance with the WTO articles has been a threat to SSI sector. He has observed that the changes in the Indian economy consequent to the economic reforms initiated in 1991 have far-reaching implications for the SSI sector. The changes involve excessive control to decontrol, physical to financial control, regulatory to developmental role of the government, irrelevantly complex to rationalized fiscal structure, protection to competition for the SSEs, equity to efficiency considerations, low to
higher importance of modern technology, rigidity to flexibility and so on. The author has pleaded for better training for the SSI entrepreneurs and for inducting competitiveness in the units.

P. B. Nimbalkar (2001) in his article “Role of International Finance in the Development of Small and Medium Enterprises” has suggested that the key elements enhancing global competitiveness of the SMEs (SSIs) revolve around an easy access to credit, technology, marketing information and simplified systems. Further the author has observed that with the changing consumer preferences and demand patterns standardization of quality and competitive pricing are the buzz words. The author has felt that globally the role of international finance in the development of SSIs has become an important element in the market determined strategies of development.

S. K. Tuteja (2001) in his article “Partnership for SMEs Development-Ancillarisation/Sub-contracting” has advocated partnerships for the SSI units since its ability to harness the competitive strengths of two unequal partners is enhanced and across economies it is empowering small scale units. In India the partnership movement is in a phase of consolidation. The author has observed that certain problems such as delays in payment ancillary suppliers/vendors persist. While government has put in non-binding arbitration and conciliation mechanism in place- the best guarantee for placing the relationship on a stronger footing is greater industrial development which creates choice for sellers. In this situation the author maintaining the principal itself would have a larger stake in nurturing
an existing partner SSI unit. The author has observed that Buyer-Seller meets and Vendor Development programs provide a measure of support to partnership.

T. A. Bhavani (2002) in the article on "Small Scale Units in the Era of Globalization-Problems and Prospects" has observed that so far the policies on small scale units have been supply-driven and paternalistic in nature leading to dependency. The individual unit centered automatic approach that is dominated by continuous protective and discretionary promotional measures did not provide any incentive for these units to solve common problems such as inadequate finance and lack of information through collective efforts and to grow into medium and large scale units. The author perceives that the existing policies created perverse incentives to these units to remain small and to operate in an isolated manner while being unable to provide infrastructure and to remove their basic problems such as limited access to markets and finance and thus to technology. The author suggests to find out possible ways of improving the competitive strength and commercial viability of SSI units in the changing context.

S. Nanjundan (1996) has in his article "Economic Reforms and Small Scale Industry" has pleaded for liberating modern SSI sector from the government. He has stressed the need for securing finance, technology, sub contracts on equitable terms and suggest regulations to be monitored and enforced by appropriate agencies. He has further opined that there is no case for subsidies, tax concessions, and exemptions from labour legislation. Government could assist through
grants and loans dissemination of industrial technological information, quality upgradation etc.

T. Venkateshwara Rao in his book “Development of Small Scale Industries – Role of DICs” (1995) has observed that DICs are aimed at making the district as a focal point of industrial development. DICs are assigned a key role in industrial planning and development at the district level. They are expected to assist small industry at the pre-investment, investment and post-investment stages. They are considered as a single window of clearance and act as a nodal agency to assist the small entrepreneurs by establishing proper liaison with various agencies related to industrial development.

The author has tried to make an in-depth study of the working of DICs in Andhra Pradesh with special reference to four selected districts. The study has covered three special schemes of DIC assistance small scale industries, self employment to educated unemployed youth and artisan development programmes.

The author has referred to his major findings of the study viz.,

- DICs have succeeded in attracting young and educated entrepreneurs into the small industry.
- There is a positive correlation between capital per worker and output per worker in case of all industries except agro-based industries.
- The linkages of units with the hinterland are not very strong as the percentage of inputs purchased within the districts and sale of output within the district is very small.
• Proximity to markets and personnel preference have high degree of influence in the choice of location of units.
• Regarding DIC assistance the beneficiaries have a high degree of influence in the choice of only one activity i.e. registration.

The degree of satisfaction is moderate among the beneficiaries as regards recommending the units for eligible incentives, appraisal of feasibility reports, help in procedural aspects and raw material assistance.

The degree of satisfaction about the role of DIC is less in matters relating to supply of machinery, suggesting the projects, preparation of feasibility reports, marketing assistance, supplying of product profiles and counseling services.

• R. Gopalkrishnan in his article “SSIs – Why Not Ask for Limited Liability Partnership” (2005) has pleaded for enactment of a law introducing limited liability partnerships as obtains in many countries. This step according to the author is needed since the most serious problem faced by small industries is said to be inadequate finance especially availability of working capital from banks. The author argues further that limited liability partnership holds a promise of meeting the investment needs of the small entrepreneur without being substantially out of sync with the business culture and environment. The limited liability partnership system combines the advantages of the traditional corporate (viz., company) structure and the entrepreneur-centric proprietary / partnership structure.
The author has referred to the US where the concept of limited liability partnership, originally thought of in connection with small ventures and business has been stretched in such a manner that it has become a tool of even big ventures and companies coming together for specific objectives. The author pleads for limited partnership on the ground that the more active “general” partners managing the business will however be faced with unlimited personal liability to the creditors of the enterprise. Highlighting the advantage of limited partnership business the author says it will give greater level of comfort to banks and other lenders to small business and it will at the same time avoid the enormous amount of documentation and strict procedure that corporate entities have to observe. Though tax pops are available and the Hindu Undivided Family (HUF) system the Limited Liability Partnership (LLP) will be much wider in its scope and appeal and can be used by first generation businessmen and entrepreneurs across communities. The author has also maintained that the campaign for persuading SSIs to convert themselves into companies so that their projects / business could become more bankable and their balance sheets could gain acceptance and creditability with banks and financial institutions has not obviously succeeded. He has strongly pleaded for enactment of a law introducing limited liability partnership as is done in many countries.

M. Venkateshwarlu in his article “Growth of SSI in India : A Micro Study” (2005) has observed that small industries have continued to play a key role in the process of industrialization as part
of the planned economic development of the country. Advantage of small scale industries as experienced in different parts of the country are low investment per worker high potential for employment generation diversification of the industrial base and dispersal of industries to into rural and semi urban areas. The author has conducted a survey on the growth of SSI units in Chittoor District and the role of Indian Bank. The results of the study have indicated positive growth rates.

Partha Pratim Sahu in his paper “Sub Contracting in India’s Small Manufacturing Enterprises – Problems and Prospects” (2007) have found that while the overall incidence of sub-contracting is of very low order, it varies significantly among different industry groups. Delayed payment by the parent firms is reported to be the most important problem of sub-contracting. Technological support from the parent firms have also been reported by many small enterprises. Another finding of the author through his study indicated that in terms of adoption of new forms of technological changes the units working under sub-contracting have shown better rate of adoption as compared with those units not working under sub-contracting. The author has concluded by referring to some areas of policy interventions such as providing financial and technological support to small enterprises enforcement of appropriate legislation to minimize the problem of undue and delayed payments by parent firms and revamp sub-contracting exchange programme and so on for successful and effective operation of subcontracting.
M. R. Narayana in his study “Determinant of Competitiveness of Small Scale Industries in India” (2004) has focused on analysis of quality and host of infrastructure facilities and business environment and their impact on competitiveness of India’s Small Scale Industries (SSIs). The study is based on data collected from a sample survey of 373 SSIs in Bangalore and non-Bangalore regions of Karnataka state. The results show that low quality and high cost transport facilities, power, water supply, lack of market information, inadequate credit facility and low technology have less effects on competitiveness of SSIs in Bangalore region than in other regions. In addition extent of delay varies between regions in getting credit sanctioned from banks, getting tax and duty drawback, getting temporary and permanent registration, clearances for exports, permission for expansion and diversification, power and water connections and clearance from pollution control. The author has mentioned that a comparison of these results with the World Bank’s Business Environment Survey results for India and China shows important factors that affect global competitiveness of SSIs in the state. Thus improvement in these factors will contribute to enhancing and strengthening of global competitiveness of SSIs.

N. Ravi Kumar in his article “SMEs Urged to Obtain Rating” (2007) has emphasized that there is need for the SMEs to obtain a rating especially a third party assessment of their credit-worthiness and other operational parameters. He has pleaded for such a practice particularly in view of the liquidity pressure mounting banks are
becoming choosier than before while extending credit to small and medium enterprises. The author says the situation with regard to the credit disbursement by banks to the SMEs is better now than a few years ago. This is primarily because of a fall in the NPAs on the SMEs loan portfolio of the banks. This has led to a rise in the comfort level of the banks with regard to lending to the SMEs. Notwithstanding the positive sentiments the banks are becoming selective in view of the widening of the gap between the demand for credit and growth in their deposits. Under such circumstances SMEs should get themselves rated by an independent agency. In this context the author has lauded the work done by the rating agency. The SME Rating Agency of India (SMERA) – a joint initiative of the Small Industries Development Bank of India, Dun and Brad street, CIBIL and leading banks. The author says the popularity of the rating scheme would improve substantially when the banks start taking the certification into account. But until that time the SMEs would continue to be rated internally by the banks when they seek credit. Rating offered several benefits to the SMEs including as a process to assess their strengths and weaknesses. Units with a good rating could use it as a negotiating instrument to get finance from banks at better terms. Rating has also been used by some companies as a part of their publicity.

SMERA assesses the enterprise by taking into account their performance over the past three years, disclosure in the financial statements and auditors qualification. Some of the non-financial parameters taken into account include management quality and
A. Selveraj in his article "SSIs Deserve a Better Deal" (2005) has attributed the growth of small scale industries in India over the last five decades to high priority accorded to this sector by the Union Government and the Reserve Bank of India. The author has acknowledged the significant contributions made by SSI sector in terms of output employment and export earnings. The sector promotes growth with equity and its rate of employment creation across the country is among the fastest for any sector.

The post liberalization scenario has witnessed a number of initiatives aimed at easing controls and regulations supportive measures such as Delayed Payment Act and schemes for ISO-9000 quality certification and the Prime Minister's Rozgar Yojana. However the widespread sickness in small industries has not received focused attention and is a matter of grave concern and debate. The author has referred to the fact that while the liability of the corporate sector is limited by law any loss in business can bring disaster to a small entrepreneur and ruin his business career. There is no proper exit route for him.

Sickness in small industries has become endemic owing to a combination of factors such as inadequate and delayed institutional finance, inefficient and non-professional management, shortage of inputs including power, labour unrest, technological obsolescence,
market failure and competition. The author has rightly mentioned that economic reforms and globalization have postulated competitive efficiency as the critical determinant factor in business. He has therefore suggested that in order to re-emerge as organic parts of a globally competitive industrial economy, Indian small industries need adequate political and appropriate bureaucratic support.

**Organization of the study:**

The research work is divided into the following six chapters.

**Chapter One: Introduction and Research Design**

This chapter provides an introduction to the research study highlighting the significance of the SSI sector and the problem areas in general in the Indian context. Other aspects covered in this chapter relate to objectives, scope of the study and the need for the research study. The chapter also contains the details of the research methodology followed in conducting the survey. A review of the related literature is provided in this chapter.

**Chapter Two: Conceptual Dimensions and policy Parameters of SSI sector in India**

The discussion in this chapter is focussed on the conceptual aspects of these small scale industries and their theoretical and practical implications. The chapter also provides details of the policies of the State and Central Governments in relation to the small scale industries.
Chapter Three: Profile of the study units and the study area

The description in this chapter relates to the various aspects of the study units i.e. SSI units covered by the study. Profile of the Bagalkot district has been provided to highlight the economic environment of the study area which has a bearing on the working of the small scale industries covered by the study.

Chapter Four: Financial Dimensions and Viability Issues of the SSI units

In this core chapter of the thesis a detailed analysis of the SSI units in relation to their financial dimensions and viability aspects have been discussed. The analysis is based on data obtained from the study units on their financial aspects.

Chapters Five: Operational parameters and Viability issues of the SSI study units

The detailed analysis of the responses of the study units on their operational aspects has been made in this second core chapter of the thesis.

Chapter Six: Summary of Findings, Conclusions and Suggestions

The chapter contains a summary of major findings of the research study and the conclusions derived from the same. A few practical suggestions based on the research findings have been provided in this chapter.
Review of Literature

Yuko Nikaido in his study "Technical Efficiency of Small Scale Industry – Application of Stochastic Production Frontier Model" (2004) has observed that in the 1950s the focus of policy making for SSI was on protection. With the onset of liberalization in 1991, SSI was recognized as a growth engine of the economy and the government urged to make the attendant policy changes.

The author’s study using industry-state wise data from the second census has led to the conclusion that on an average they operate at 80 percent of the potential maximum production frontier – although diversification among industry groups is observed. The author has further found out that the agglomeration of firms has positive effect on the measured technical efficiency, while the firm size has a negative effect on it. In this context the author has referred to Abid Hussain Committee which suggested the development of clusters as a new policy direction. The author says locating closely to other forms can enable the government the unit cost of infrastructure and monitoring. He endorses the argument that it can lead to accretion of skills and lowering of input cost and then SSI can enjoy external economies. Deprecating the policy of portion of SSIs in the pre-reform period the author says "Under the environment in which the government has protected SSI from competition with large firms and foreign firms and has assured them the markets, SSI has not had the incentive to grow into larger firms and has ignored the quality of its goods."
M. H. Bala Subramanya in his article “Reservation Policy for Small Scale Industry – Has it Delivered the Goods?” (1995) has observed that promotional agencies encourage the growth of small scale enterprises but protective measures such as reservation coupled with concessions and benefits encourage SSI units to remain small rather than transform itself to a larger size over a period of time. To that extent protective policy acts as a hindrance of inherent dynamism of SSI and an impediment to the very competitiveness of the sector.

The author presumptively suggests that concessions and benefits should aim at technology upgradation productivity improvement and competitiveness. He advocates for a dual approach of (i) Gradual growth from small to medium and medium to large and (ii) Inter linkages should be encouraged.

Satyajit Majumdar in his paper “Strategic Leadership in Small Manufacturing Organizations : An Empirical Study on Madhya Pradesh and Maharashtra” (2005) has maintained that small scale sector especially in the manufacturing segment is under severe pressure in the present liberalized business environment. He opines that the phase shift in Government policies, from protection to competition has thrown challenges for competitive growth. In India majority of small scale organizations are proprietary firms. Strategic planning in small organizations is significantly different from large organizations. The process is informal in nature as in most of the cases the entrepreneurs are the sole strategic decision makers. In most of the cases they perform multiple tasks apart from which there
is also a strong need for them to chalk out a growth plan. The core necessity of strategic leadership is to view the market and opportunities. By design small manufacturing organization have the advantage of flexible economies of scale which the large scale industries cannot create.

Small organizations can work on two broad strategic options. One they can gain competence in niche area in which scaling down may not be possible for the large scale industries. This option does not rule out the possibility of growth in the domestic and international market. Two they can operate on a growth plan through which they could acquire competence to compete with others. Both these strategic options need a detailed analysis of the market and the industry.

The author has emphasized the importance of coexistence of small and large industries, small organizations have the capacity to deliver the economies of scale to the large industries. To remain competitive and flexible large organizations depend on the small ones for value added sourcing.

N. Meenakshi Sundaram in the article “Management Training for Small Entrepreneurs – A Need” (2001) has emphasized the need for management training for SSI entrepreneurs and says SSI entrepreneurs may have to perform the work of all the functional areas of management. They may have to buy raw materials, convert them into finished products, sell the products and realize cash. Such entrepreneurs require training programme in general industrial management. The areas for such training include production
management, marketing management, financial management and personnel management.

S. Murali Krishna in his article “WTO and SSI Units : A Review” (2007) has observed that the Small Scale Sector (SSI) happens to be at cross roads at the present juncture. The new economic conditions have thrown open new challenges in the form of competition and opportunities for scaling new heights. The competitive conditions call for reduced cost of production which inter alia depends on cost of credit and improvement in quality which is the function of technology the emergence of multilateral trade regime in the form of WTO and the benefits and strings attached with it. The author stresses the need for removing the constraints which limit the competitive strength of the industries. It is not only the question of Indian SSIs coping with the WTO regime, but the greater issue of how they can leverage the benefits of larger access to global market.

R. K. Mishra and S. Sreenivas Murthy in their article “SSI Sector – The Growth Engine of Indian Economy (2007) have made an optimistic observation that despite liberalization and globalization the Indian Small Scale Industry sector has shown resilience and has become an important growth engine of Indian economy. The authors have referred to some of the growth parameters of the SSI sector and have mentioned that the SSI sector plays a pivotal role in the overall growth of the Indian economy. The sector accounts for around 95% of industrial units, 42% of the manufacturing sectors output, 36% of exports and provides direct employment to 18 million people in
around 3.2 million registered SSI units. The SSI sector covers wide spectrum of industries and produced over 7500 products, ranging from consumer goods to sophisticated machinery and computer peripherals.

The key problem of the small scale industries relate to the supply credit and have cited the opinion of Abid Hussain Committee findings in this context.

However the authors have stressed the fact that SSI sector in India has been facing many problems pertaining to competition, finance, raw material, management, government policy, power supply, marketing, sales tax and central excise. The authors have emphasized that an appropriate and timely intervention by the government will play a catalyst role in sustaining the growth and competitiveness of this sector.

**Major Observations**

The following major observations have emerged from the preceding analysis.

Major advantages of SSIs in a labour abundant and developing economy like India are (i) high labour capital ratio, (ii) shorter gestation period and need smaller market (iii) involve lower investments, (iv) lead to equitable distribution of income, (v) stimulate entrepreneurship and (vi) promote employment and regional growth.

SSI definition in India is based on capital investment unlike in other advanced countries where labour employment is considered for defining an SSI. Countries which go by this criterion in identifying
small industrial units include China, Japan, Germany, Indonesia, Iran, Turkey, U.S.A., U.K., Sweden and Italy.

In India wide spectrum of industries comprising about 7500 quality products are included in small industrial sector. The products involve very simple to highly sophisticated technology and offering opportunities for the utilization of local resources and skills. Products range include some high valued products like electronic type writers, survey equipments, security and fire alarm systems, television sets in addition to handicrafts and other traditional products. Products of SSI units are used as original equipments in terms by manufacturers in large industries SSIs have the flexibility of responding in varied needs of the economy.

SSI sector in LDCs usually employ 80% of the entire industrial work force of the country. However most of the value added varying from around 40 to 70% routinely originated from only few industries, usually food, beverages, jewellery and gems, leather and leather products, jute and jute products, textile, furniture, wood products and handicrafts indicating the narrow base of the SSIs in the economy.

In India SSIs account for 90% of the country’s industrial units, 40% of the industrial output, 80% of employment in the industrial sector, 40% of exports and 7% of net domestic products.

The Third All India Census (2004) of Small Scale Industries has revealed some authentic information. The size of the SSI enterprise is 10.52 million units of which 4.45 million are defined as SSIs under the official definition. The total employment contribution of the sector
The number of units in the sector is 24.93 million with a per unit contribution of 2.37. The export contribution of the sector is Rs. 14199 crores and the number of exporting units is 50606. Out of 878 items reserved for the sector only 672 are usually produced by the SSIs. The census shows a decline in small manufacturing units during the intersessional period in favour of service enterprises. The figures relating to per unit as an indicator of enhanced capital in this sector but a desegregation of units according to utilization of key inputs such as bank credits and energy indicated a distantly poor picture of growth performance of the sector.

There are some areas of concern for the SSIs industry association have become less articulate. Government and development finance institutions have slowed down their proactive approach to SSIs.

Precisely SSIs suffer from low capital base, difficulties in accessing technology, credit constraints, low access to business services, poor quality of human resources, low lobbying capacity, etc.

Major exogenous forces influencing the performance of SSIs relate to (i) advancement in generic technology of computers and telecommunications, rise in e-commerce, globalization and liberalization policies, multilateral trading rules under WTO agreements, bilateral/regional agreements, mergers and acquisitions, labour and environmental standards/lobbies, sourcing out of activities to outside firms and growth in world demand for a variety of services.
The SSI sector appears to be hurtling down the path of sickness. The latest census reveals that as of March 2001 out of 23.6 lakhs registered SSI units 8.7 lakh or close to 40% have closed down permanently and another 15% have gone sick. Job losses varied from 1 crore to 1.95 crore. Leaders of SSI movement have mentioned two reasons responsible for this i.e., lack of demand and lack of finance, lack of demand has occurred mainly because of imports and dereservation.

Reviews of writings on SSIs have revealed some problem areas and suggestions to overcome the problems in the post-liberalization era. Some of the suggestions include encouraging foreign investment to infuse additional resources and technology, simplification of industrial legislation, rehabilitation of sick units, technology upgradation, improved marketing management, proper fiscal environment, removal of credit constraints, etc. It is rightly suggested that for the Indian SSIs the new millennium will be structurally different from the earlier decades in terms of geo-politico-economic environment within which they have to operate. Some writers have considered that compliance with the WTO articles has been a threat to SSI sector. Relating to partnership based on ancillarisation and subcontracting an expert has advocated for buyer-seller meet and vendor-development programs for providing measure of support to partnership. Another suggestion of a writer on SSI related to the present policies of SSIs which have been supply driven and paternalistic in nature leading to dependency. The need according to
him is to find out possible ways of improvability of SSI units in the changing context. There is need for liberating modern SSI sector from the government. One author has believed that there is no case for subsidies tax concessions and exemptions from labour legislation.

Enactment of law for limited liability partnership has been advocated by an author as such legislation has been successful in countries like USA, etc. Such a provision meets the investment needs of the SSIs. Such a system combines the advantages of traditional corporate (viz. company) structure and entrepreneur-centric proprietary / partnership structure. Another writer has pleaded for SMEs to obtain a rating especially a third party assessment of their credit-worthiness and their operational parameters. Such a practice is needed in view of the liquidity pressure mounting on banks who are becoming choosier than before while extending credit to small and medium enterprises. The work of SME Rating Agency of India (SMERA) has been commendable in this context.