A significant feature of the Indian economy since independence is the rapid growth of the small-scale industrial sector. Over the past five decades, successive governments have framed policies to protect the interests of the small-scale industrial sector and facilitate its rapid development. In pursuance of their policies, Governments have initiated various support measures from time to time, which include reservation, revision of investment ceilings, modernization of technology, marketing assistance, fiscal incentives etc.

The small-scale sector owes its definition to the Industries (Development and Regulation) Act, 1951. The sector is defined in terms of value of investment in plant and machinery (original value). ¹

Profile of small-scale industries

- 95 % of industrial units in the country.
- 39.92 % of value added in the manufacturing sector.
- 34.29 % of national exports.
- 6.86 % of Gross Domestic Product (GDP).
- Employment to 193 lakh persons.

Over 7500 items are produced in the small-scale industrial sector.

749 items have been reserved for exclusive manufacture in the small-scale industrial sector.

358 Items have been reserved for exclusive purchase from the small-scale industrial sector.  

Industrialization has been a striking feature of Indian economic development since 1951. Industrial production has gone up by about five times, making India the tenth most industrialized country in the world.

Small-scale industries play a vital role in the development of the national economy. India is facing the problems of unemployment and paucity of capital resources. “The built in characteristics of small scale industries, such as relatively small size of initial capital requirement, entrepreneurship and employment generation potential, etc., render them the ideal for balanced and decentralized development.” The employment generated in small-scale factory units is nine times that of large establishments for an investment of Rs.1 lakh in fixed assets.

The small-scale industries assume great importance in mitigating the problem of unemployment, in facilitating the growth of the industrial sector and in ensuring all round development of the economy.

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2. Annual Report, 2002-2003, Ministry of small scale industries in India, P.No.8
“Cottage and small scale industries are of very special importance in India. If we lack capital, we do not lack manpower, and we must use this manpower both to add to the wealth of the country and to reduce unemployment”, Jawaharlal Nehru said. Besides, small-scale industries avoid regional imbalances and facilitate decentralized development in various parts of the country, including the remote areas, by effectively utilizing the locally available raw materials and other resources, including work force. 3

Small scale industries have emerged as a vibrant and dynamic sector of the Indian economy that contributes around 40 per cent of the total industrial production and over 34 per cent of the national exports. At present the Small Scale Industrial sector is providing employment to over 250 lakh persons. The captains of our economy are more than aware of the importance of the small scale industries in terms of employment potential, productivity, utilization of indigenous resources, balanced regional development etc. In the words of Dr. Manmohan Singh, “the key to our success of manufacturing in the small scale sector”. The small scale sector is important not only for its contribution to GDP but also for its stellar performance in exports and in generating employment.

The small scale industrial sector is endowed with certain special features, which are especially beneficial to our economy such as employment potential, indigenous nature, balanced development of

regions etc., when compared with large scale units. This sector facilitates speedy development of the economy by providing employment opportunities to rural and less skilled masses and caters to the consumption requirements of these people by resorting to indigenous production making use of local resources.

The entrepreneurs involved in running small-scale units are generally termed small entrepreneurs. It is evident that small entrepreneurs outnumber large entrepreneurs in every country.

The “small sector”, as the name implies, consists of small-scale industries. We can divide the small-scale industries into the following three categories, viz.

1. Cottage Industries,
2. Agro- based industries,
3. Small industries.

In India, since the inception of planning, industrialization has been given priority and the Second Five Year Plan (1955-60) laid a firm foundation for industrialization. In the subsequent five-year plans, with the aim of achieving self-reliance and sustained economic growth, diversification of industries, both in the private and public sector was envisaged.  

Small-scale industries were also given importance along with large scale and medium scale industries. The small-scale sector received a

4. P.N.Dhar & H.F.Lydall, the role of small enterprises in Indian Economic Development, New Delhi, P.No.12, 1962
boost in the Third Five Year plan (1960-65). The small-scale sector experienced a phenomenal growth then. In terms of employment generation, this sector is next only to agriculture and accounts for about 25 per cent of the total exports of the country. In terms of value added, it contributes about 40 per cent of the manufacturing sector. About one third of the total industrial production is contributed by the small-scale sector. It also provides employment opportunities to 12 million people (Kurien 1991). Thus, small-scale industries constitute a vital area in developing countries like India.

The number of small-scale units was 5.50 lakh during 1975 – 76 and had increased to 19.40 lakh, small-scale units in the year 1990 – 91. With the increase in the number of units, the problems associated with the small-scale units have also increased (Dahotre 1994).

The various Committees appointed by the Government of India from time to time, to study the problems of the small-scale units, have come out with various findings, the principal among them being about marketing. Based on the recommendations of the Industrial Conference held during 1947, the Small-Scale Industrial Board was formed in 1952. This Board was vested with the power of overall control of industries in the country. Later during 1955, the National Small Industries Corporation (NSIC) was started to assist small-scale units.
The Corporation was also assigned the role of hiring high cost machines to the small-scale units; Setting up of Small Industries Service Institutes (SISI) during the Second Plan period marked another important step taken by the Government in tackling the problems of small-scale industries. The Small Industries Development Corporation (SIDCO) set up in each state, also helped the small-scale units. They procure orders from government departments and pass their on to the small-scale units.\(^5\)

The general problems, which affect the viability of these units, are many, such as high cost of production, poor quality of products, inadequate working finance, lack of supporting infrastructure, use of old and obsolete technology, deficiency in entrepreneurial skills, difficulty in marketing etc. Tamil Nadu seems to have the dubious distinction of having the second largest number of sick small-scale industrial units in the country, next only to West Bengal. Working capital inadequacy, managerial deficiency, delayed payments from customers, lack of facilities for diversification, marketing problems, inadequate institutional credit, technological obsolescence, non-availability of raw materials, difficulties in power supply etc., are said to be the major causes of sickness among small scale industrial units in Tamil Nadu. Though sickness is an unenviable deformity that has to be accepted as an aftermath of rapid industrialization, it is a throne on the industrial scenario of our country. \(^6\)

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6. Indian Express, Dubious distinction for TN: 25% of SSI’s are sick despite central aid, August 14, 1993.
However Small Scale Industries provide immediate large – scale employment and have a shorter gestation period and relatively smaller markets. They, occupy an important place in the national economy. In the highly developed countries of Western Europe, the U.S and Japan, the total number of small firms make up over-whelming majority of business enterprises.

A rewarding feature of economic development in India has been the impressive growth of modern small-scale industries. The small enterprises by now have established their competence to manufacture a wide variety of sophisticated goods in different product – lines requiring a high degree of skill and precision.

They have made a notable contribution in realizing the principal objectives of expanded employment opportunities, adoption of modern techniques and dispersal of industries in small towns and rural areas. Starting a business requires boldness even in the best of times. Throughout the world, millions of entrepreneurs display such boldness as they create new business. This creative process is the lifeblood of the strong private sectors that drive the growth and prosperity of nations.

The small entrepreneurs who have a high level of administrative capability, flair and ability for decision-making, computational skills, delegation, organizational and communication skills and sound technical knowledge stand a much better chance of success than their counterparts who possess lower levels of these basic qualities.
The development of small-scale industries would be beneficial to the developing countries and assist them in improving their economic and social well-being. India is ranked among the ten most industrialized countries in the world. The country has derived its economic strength from the growth of small industries. The small-scale sector’s total production is more than 55 % of the national profits.

Industrialization is a sine-qua-non of economic progress. All the rich countries of the world are industrialized countries. The seeds of industrialization, in the 21st century in England and other parts of Western Europe, have now blossomed into full-fledged plants. Industry is the one area, in which man has benefited most by scientific and technological development.

Industrialization in the Western hemisphere has drastically changed not only the living standards of people but also their social customs, traditions and beliefs. In the developing regions of Asia and Africa, the seeds of industrialization have already been sown.

The small-scale industrial and business sectors are left completely too private entrepreneurs. There is the need to speed up the process of industrialization to improve the standard of living of the weaker sections of the society and involve them in the process of growth. Small-scale industries and entrepreneurship are the two faces of the same coin industrial development.
a. Mobilization of resources of capital and skills and their optimum utilization.

b. Creation of greater employment opportunities and increased output, income and standards of living.

c. Meeting a substantial part of the economy’s requirements for consumer goods and simple producer goods.

d. Provides employment and a steady source of income to the low-income groups living in rural and urban area of the country.

e. Provides substitutes for various industrial products now being imported into the country.

f. Improves the quality of industrial products manufactured in the cottage industry sector.

Small business is the Open University for entrepreneurs to translate their vision innovative, ideas into a reality and stand out distinctively in society. In the process, they not only produce wealth and services, but also create employment opportunities for others. Small business is thus the seed of the entrepreneur’s dreams. Today entrepreneurs remain the backbone of society.7

The small-scale sector is manufacturing over 7,500 items involving very simple to highly sophisticated technologies and offering opportunities for the utilization of local resources and skills. Apart from handicrafts and other traditional products, small-scale units manufacture some of the high value added and sophisticated products like electronic typewriters, electronic survey equipments, Security and five alarm systems, television sets and other consumer durable products.

The modern small-scale industrial segment includes tiny units, power looms, traditional industries like khadi and village industries, handlooms, handicrafts, sericulture, and coir industry.
The small-scale industrial classification based on the size, structure of manufacturing units in terms of the monetary value of paid-up capital or fixed assets or plant and machinery is problematic for a number of reasons including difficulties of measurement and poor data availability. Smallness by itself does not identify any set of unique problems common to all small businesses. The identification of problems common to such widely differing business entities is difficult. The concept as it has developed in India also shows confusion and lack clarity. Before independence, the term “small scale industry” was meant to denote the village based and / urban cottage industries, manufacturing handicrafts.

In the Industrial Policy Resolution (1948) and the Document of the First Five Year Plan, the only criterion to define small scale industries was their non-registration under the Factory Act. Thus, small-scale industry meant all units, which used power and employed less than 10 workers / without power and employed up to 20 workers. Later on during the First Five-Year Plan, the distinction between small-scale industries and village industries was made. From then on capital, employment and use of power were adopted as criteria. In 1960, employment, power and machinery were the determinants of size. From 1966, the investment criteria to define small-scale industries have been periodically revised as shown below in the Table 2.2.

The Government of India announced a new policy for the small and tiny sector and raised the investments limit to Rs.5 lakh, irrespective of location of the unit. It was hoped that the revision would facilitate the
small scale and ancillary industrial undertakings modernizing their plant and machinery to achieve rapid growth and would help the small-scale industries to play a more effective role in the industrial development of the country.  

8  

Table 2.2  

Investment ceiling for plant and machinery  

(Rs. Lakh)  

<table>
<thead>
<tr>
<th>Year</th>
<th>Small Scale Industry</th>
<th>Ancillary Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal</td>
<td>Read*</td>
<td>Nominal</td>
</tr>
<tr>
<td>1966</td>
<td>7.50</td>
<td>9.50</td>
</tr>
<tr>
<td>1975</td>
<td>10.00</td>
<td>5.80</td>
</tr>
<tr>
<td>1980</td>
<td>20.00</td>
<td>8.50</td>
</tr>
<tr>
<td>1985</td>
<td>35.00</td>
<td>10.60</td>
</tr>
<tr>
<td>1991</td>
<td>60.00</td>
<td>11.80</td>
</tr>
<tr>
<td>1997</td>
<td>100.00</td>
<td>27.50</td>
</tr>
</tbody>
</table>

*The nominal asset values have been deflated by the wholesale price index (WPI) for machinery and transport equipment at 1970 – 71 prices.

Sources: Ministry of Industry, Government of India.

8. Sickness in SSS – with Spe. Ref. to the role of commercial Bank, by Dr. Salish B. Mathur, New Delhi, P. No 4, 5
Performance of the Small Scale Industries

The following Table 2.3 shows that development of the small scale industries in India.

Table – 2.3

PERFORMANCE OF THE SMALL SCALE INDUSTRIES
(Units, Production, Employment, Investment and Export)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total No. of Units (Lakh)</th>
<th>Employment (Lakh persons)</th>
<th>Total Investment (Rs. crore)</th>
<th>Production of current prices (Rs. crore)</th>
<th>Exports (Rs. crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991–1992</td>
<td>70.63 (4.07)</td>
<td>165.99 (4.83)</td>
<td>1,00,351.00 (7.26)</td>
<td>80,615.00 (2.30)</td>
<td>13,883.00 (28.16)</td>
</tr>
<tr>
<td>1992–1993</td>
<td>73.51 (4.07)</td>
<td>174.84 (5.33)</td>
<td>1,09,623.00 (9.24)</td>
<td>84,413.00 (4.71)</td>
<td>17,784.00 (28.10)</td>
</tr>
<tr>
<td>1993–1994</td>
<td>76.49 (4.07)</td>
<td>182.64 (4.46)</td>
<td>1,15,795.00 (5.63)</td>
<td>98,796.00 (17.04)</td>
<td>25,307.00 (42.30)</td>
</tr>
<tr>
<td>1994–1995</td>
<td>79.60 (4.07)</td>
<td>191.40 (4.79)</td>
<td>1,23,790.00 (6.9)</td>
<td>1,22,154.00 (23.64)</td>
<td>29,068.00 (14.86)</td>
</tr>
<tr>
<td>1995–1996</td>
<td>82.84 (4.07)</td>
<td>197.93 (3.42)</td>
<td>1,25,750.00 (1.58)</td>
<td>1,47,712.00 (20.92)</td>
<td>36,470.00 (25.46)</td>
</tr>
<tr>
<td>1996–1997</td>
<td>86.21 (4.07)</td>
<td>205.86 (4.00)</td>
<td>1,30,560.00 (3.82)</td>
<td>1,67,805.00 (13.60)</td>
<td>39,248.00 (7.62)</td>
</tr>
<tr>
<td>1997–1998</td>
<td>89.71 (4.07)</td>
<td>213.16 (3.55)</td>
<td>1,33,242.00 (2.05)</td>
<td>1,87,217.00 (11.57)</td>
<td>44,442.00 (13.23)</td>
</tr>
<tr>
<td>1998–1999</td>
<td>93.36 (4.07)</td>
<td>220.55 (3.50)</td>
<td>1,35,482.00 (1.68)</td>
<td>2,10,454.00 (12.41)</td>
<td>48,979.00 (10.21)</td>
</tr>
<tr>
<td>1999–2000</td>
<td>97.15 (4.07)</td>
<td>229.10 (3.88)</td>
<td>1,39,982.00 (3.32)</td>
<td>2,33,760.00 (11.07)</td>
<td>54,200.00 (10.66)</td>
</tr>
<tr>
<td>2000–2001</td>
<td>101.1 (4.07)</td>
<td>238.73 (4.21)</td>
<td>1,46,845.00 (4.90)</td>
<td>2,61,297.00 (11.78)</td>
<td>69,797.00 (28.78)</td>
</tr>
<tr>
<td>2001–2002</td>
<td>105.21 (4.07)</td>
<td>249.33 (4.44)</td>
<td>1,54,349.00 (5.11)</td>
<td>2,82,270.00 (8.03)</td>
<td>71,244.00 (2.07)</td>
</tr>
<tr>
<td>2002–2003</td>
<td>109.49 (4.07)</td>
<td>260.21 (4.36)</td>
<td>1,62,317.00 (5.16)</td>
<td>3,11,952.00 (10.52)</td>
<td>86,013.00 (20.73)</td>
</tr>
<tr>
<td>2003–2004</td>
<td>113.95 (4.07)</td>
<td>271.42 (4.31)</td>
<td>1,70,719.00 (4.87)</td>
<td>3,57,733.00 (14.68)</td>
<td>NA</td>
</tr>
<tr>
<td>2004–2005</td>
<td>118.59 (4.07)</td>
<td>282.57 (4.11)</td>
<td>1,78,699.00 (4.98)</td>
<td>4,18,263.00 (16.92)</td>
<td>NA</td>
</tr>
</tbody>
</table>

E = Estimated      P = Provisional
Main source: office of the development commissioner, SSI, Ministry of Industry
Figures in brackets show the percentage growth over the previous year.
The performance of the small-scale sector, on various parameters, viz, number of units, value of production, and number of persons employed, amount of investment, and exports in the recent years has been impressive. The small-scale sector, which plays a pivotal role in the Indian economy in terms of employment and growth, has recorded a high rate of growth since independence in spite of tough competition from the large sector.

It is now one of the fastest growing sectors in the country. It has made steady progress during recent years. The good performance of the small-scale units is evident from their number, production, employment and foreign exchange earnings. During the last decade alone, the small sector has progressed from the production of simple consumer goods like soaps, detergents or leather goods to the manufacture of many sophisticated products like electronic control systems, microwave components, electronic medical equipments, TV sets, etc.  

**Number of Units**

In 1960, there were only 37,000 small-scale industrial units registered with the various state Directors of Industries throughout the country. The number of small-scale industrial units has since steadily increased over the years. This trend can be seen from 1991-92 to 2004-2005 in Table 2.3. During 2004-2005, the number of small-scale units increased to 118.59 lakh from 70.63 lakh in 1991-1992.

---

**Value of Production**

The price value of production of goods and services in the small-scale sector reached Rs.4,18,263 (16.92) crore in 2004-2005 (at 2003-2004 prices). It was higher by the Rs.3,57,733 (14.66) crore compared with the figures previous for the year. The year-wise details of value of production in the small-scale industrial sector from 1991-92 to 2003-2004 has been given in Table 2.3.

**Number of Persons Employed**

As can be seen from Table 2.3 the level of employment in small-scale industries was 165.99 (4.83) lakh persons in 1991-92. It rose to 282.57 (4.11) lakh persons in 2004-2005.

**Investment Value**

The value of investment in the small-scale industries stood at Rs.1,78,699 (4.98) crore in 2004-2005 at 1991-1992 value was higher by the Rs.1,00,351 (7.26) crore important with the together of previous years. The year wise investment details given in Table 2.3.

**Value of Exports**

Exports of small-scale industries have continued to be on the rise. During 2002-2003, the exports were higher by Rs.86,013 crore than those in 2001-2002.Rs.71,244 crore. The trend of increase in the value of exports may be assessed from table 2.3.
At the national level, the performance of the industrial sector, as indicated by the index of industrial performance has been unsatisfactory. The growth rate index of industrial performance has come down from 5.1 % in 2000-2001 to 4.7 % in 2001-2002. The growth rate index of industrial performance has gone up to 5.3 % in 2002-2003.  

The following Table 2.4 Shown the small scale industrial sector growth rate in India.

### Table 2.4

**Growth Rate of Small Scale Industry in India**

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth rate of SSI Sector (%)</th>
<th>Growth rate of overall Industrial sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993-1994</td>
<td>5.7</td>
<td>6.0</td>
</tr>
<tr>
<td>1994-1995</td>
<td>10.0</td>
<td>9.1</td>
</tr>
<tr>
<td>1995-1996</td>
<td>11.5</td>
<td>13.0</td>
</tr>
<tr>
<td>1996-1997</td>
<td>11.3</td>
<td>6.1</td>
</tr>
<tr>
<td>1998-1999</td>
<td>7.8</td>
<td>4.1</td>
</tr>
<tr>
<td>1999-2000</td>
<td>7.1</td>
<td>6.7</td>
</tr>
<tr>
<td>2000-2001</td>
<td>8.0</td>
<td>5.0</td>
</tr>
<tr>
<td>2001-2002</td>
<td>6.1</td>
<td>2.7</td>
</tr>
<tr>
<td>2002-2003</td>
<td>7.7</td>
<td>5.7</td>
</tr>
<tr>
<td>2003-2004</td>
<td>8.6</td>
<td>6.9</td>
</tr>
<tr>
<td>2004-2005</td>
<td>9.96</td>
<td>8.4</td>
</tr>
</tbody>
</table>

Source: Ministry of small scale industry in India.

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Silent Features of New Policy

The primary objective of the small-scale industrial policy during the nineties was to impart more vitality and growth impetus to the sector, so that the sector contributes significantly in terms of output employment and export. The aims were.

1. To decentralize and delicense the sector.
2. To deregulate and debureaucratise the sector
3. To review all statutes, regulations and procedures and to effect suitable modifications where necessary.
4. To promote small-scale entrepreneurs specially industrialists in the tiny sector.
5. To motivate small and sound entrepreneurs to set up new green enterprises in the country.
6. To involve traditional and reputed voluntary organizations in the intensive development of Khadi and Village Industries (KVI) through area approach.
7. To maintain a sustained growth in productivity and attain competitiveness’ in the market.
8. To industrialize backward areas of the country.
9. To accelerate the process of development of modern small-scale entrepreneurs, tiny enterprises and village industries through appropriate incentives, institutional support and infrastructure investments.

The total approach of the new policy was towards creating an atmosphere conductive to the development of entrepreneurship and technological progress.¹¹

### Table 2.5

**Index of Industrial Performance of SSI in India**

<table>
<thead>
<tr>
<th>Years</th>
<th>Deficits (Rs. Corer)</th>
<th>% of GDP</th>
<th>Revenue (Rs. Corer)</th>
<th>%to GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-2000</td>
<td>1,04,717.00</td>
<td>5.4</td>
<td>67,596.00</td>
<td>3.5</td>
</tr>
<tr>
<td>2000-2001</td>
<td>1,11,972.00</td>
<td>5.1</td>
<td>77,369.00</td>
<td>3.6</td>
</tr>
<tr>
<td>2001-2002</td>
<td>1,16,314.00</td>
<td>4.7</td>
<td>78,821.00</td>
<td>3.2</td>
</tr>
<tr>
<td>2002-2003*</td>
<td>1,35,524.00</td>
<td>5.3</td>
<td>95,377.00</td>
<td>3.8*</td>
</tr>
</tbody>
</table>

*Estimated
Main source: RBI Bulletin may 2002. 26

Small Scale industries – Relevance to Indian Economy

At the dawn of independence, India was beset with an appalling state of the economy, poor infrastructure, lack of funds, scarcity of food and social tensions arising out of the division of the country into India and Pakistan. The first government under the leadership of Pundit Jawaharlal Nehru inherited the Philosophy of Mahatma Gandhi and was for fostering cottage industries and the use of traditional skills as a means of attaining a self – reliant rural structure. Village and cottage industries have remained close to the hearts of our policy makers since then.

The philosophy of economic development in the post independence era provided a key thrust to large-scale public enterprises. While the Second Five Year Plan based on the Mahalanobis model set out to build an efficient infrastructure to meet the emerging needs of industry and consumers, small industries were accorded an important place in the framework of Indian economic planning. Village and Cottage industries has remained the darling of politicians and bureaucrats alike for a variety of social economic, ideological and political reasons. 12

The Small Scale Sector has been assigned pride of place in the country’s industrial development programme due to the following reasons:

12...Mukesh Gulati, “The changing Complexion of small industry in India” liberal times, Feb – 1994
1. A given amount of capital invested in a small-scale unit provides more employment than the same amount in a large undertaking. This is very important, particularly in a country like India where there is surplus work force.

2. Small-scale industries provide employment without adversely affecting the prime occupation, namely agriculture. The illiterate masses can undertake work during the off-season in these industries.

3. India is short in two important factors of production, namely
   
   i. Capital
   
   ii. Technical and managerial skill. Small-scale industrial economies contribute to capital formation and act as a nursery to raise managerial skill.

4. Small-scale industries mobilize untapped resources of capital and rural skill that may otherwise remain unutilized in this vast country. Large-scale industries as they cluster around cities cannot attract these resources.
5. Unlike large-scale industries, small-scale industries need relatively shorter gestation periods.

6. Small-scale industries are less dependent on imported machinery and raw materials.

7. Small-scale industries help dispersal of economic power and thus ensure balanced economic growth in the country.

8. Small-scale industries help to meet a substantial part of increased demand for consumer goods and simple producer goods.

9. The creation of a network of small-scale units opens up more sources of supply and demand opportunities for large-scale industries and imparts strength and viability to the industrial sector.

10. Small-scale industries also can develop handicrafts and promote aesthetic values.¹³

For the above reasons, the small-scale sector and its development in a developing country like India is essential.

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¹³ K.C. Reddy, “SSI”- Ashish Publishing House, New Delhi, P.No.57-72
DEVELOPMENT OF SMALL SCALE INDUSTRIES IN INDIA

Making the best use of the natural resources, by employing a high order of skilled and artistic talents through traditional handicrafts, India has attained a place of pride in the world. However, the advent of modern large scale mechanized industry. The imposition of restrictions on Indian trade by the British rulers and deteriorating socio-economic conditions led to the decline of small-scale industries. With the provision of a permanent place in the nation’s policy of economic development after the attainment of independence, Small Scale Industries are on the path of progress and expansion. A brief view of the small-scale sector before and after independence is given below.

**Before Independence**

Cottage and small-scale industries had flourished in India in early times. They were principal sources of income and employment and their products were identified for their excellence and artistic skill. “At a time when the West of Europe, the birth place of the modern industrial system, was inhabited by uncivilized tribes, India was famous for the wealth of her rules and for the high artistic skill of her craftsmen.” Prof. Weber wrote, “The skill of the Indians in the production of delicate woven fabrics, in the mixing of colours, the working of metals and precious stones, the preparation of essences and in all manner of technical arts, has from very early times enjoyed a world-wide celebrity.” 14

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“The Muslins of Dacca were famous ages ago, throughout the civilized world. Textile fabrics of inimitable fineness tapestry glittering with gold gems, rich embroideries and brocades, carpets wonderful for the most brilliant hue, furniture most elaborately carved, and swords of forms and excellent temper are among the objects that prove the perfection of art in India.”  

The decay of these industries started with the advent of the British, though the seed was shown in the Moghul period itself. The following are some of the causes.

- With the disappearance of the native courts in Mogul period, these industries lost their patronage.
- The influx of many foreign influences resulted in the decline in the demand for homemade goods.
- The competition from machine – made goods of British industries resulted in a fall in demand for Indian goods.
- Due to the discouraging policy of the East India Company, Indian artisans were forced to work in the company’s workshops for their livelihood.
- Failure of the artisans to adapt themselves to changing conditions resulted in high costs of production of their products and so they could not compete with British goods.

In spite of these discouraging factors, some of the cottage and small industries have shown notable adaptability and have survived the British Rule in India.

Indian agriculturists needed supplementary occupations to absorb their idle time and to augment their low earnings. The cottage and small industries provided supplementary occupation for the idle agriculturists in the off-season. A large number of repair services that have followed in the wake of large-scale industries, can be and are carried on in small establishments located move larger industries.

The Indian artisan is by nature home loving and conservative. This nature of the workers, their illiteracy and poverty, the lack of alternative means of employment and the force of social and religious institutions have compelled them to stick to their age-old ancestral professions.

**Industrial Policies after Independence**

Since independence, the Government of India, realizing the socio-economic significance of the role of small-scale industries, has initiated several positive measures for their development. The industrial policy pronouncements, the progressive allocations made in the Five-Year Plans, the creation of different promoting and supporting organizations and the nationalization of commercial banks reflect the spirit and effort of the Government towards the creation of a favorable climate for the growth and working of small-scale industries.  

\[\text{17. Dr.R.JayaPrakash Reddy, Problems and Development of SSI in India, Ashish Publishing house, New Delhi – 1991, P.No.4, 5, 6.}\]
RECENT TRENDS & NEW SMALL SCALE INDUSTRIAL POLICY

That the small industries have a specific role to play was underlined by the Industrial Policy Resolution of 1948, which stated that cottage, and small-scale industries are particularly suited for the better utilization of local resources and for the achievement of local self-sufficiency in respect of certain types of essential goods. After the formulation of the First Five Year Plan, the Planning Commission with Professor D.G.Karve as Chairman appointed a Committee. The Committee recommended that any development Programme for small industries should be decentralized, should aim at gradual improvement in techniques without reducing job opportunities, should assure marketing through co-operatives, and aim at providing promotional support rather than enforce protection or reservation.

A Small Scale Industries Board was constituted in 1954 and a number of helping schemes such as supply of machinery on hire purchase, liberal and wider grants under State Aid, and price preference in government purchase were initiated to provide support to the small-scale sector.

The government announced its Second Industrial Policy in 1956, which replaced the industrial policy resolution of 1948. This industrial policy statement explicitly made it clear that “Small scale industries provide immediate large scale employment, offer a method of ensuring a more equitable distribution of national income and facilitate an effective mobilization of resources of capital and skill which might otherwise remain unutilized.”
The state followed a policy of supporting small-scale industries by restricting the volume of production in the large-scale sector, by differential taxation, or by direct subsidies. While such measures continue to be taken wherever necessary, the aim of the state policy is to ensure that, the decentralized sector acquires sufficient vitality to be self-supporting and its development integrates with that of large-scale industries. The state therefore, concentrates on measures designed to improve the competitive strength of the small-scale producer.

The Janata Government gave a fitting place to the small-scale sector through the New Industrial Policy 1977. This policy puts it thus: The emphasis has so far been on large industries, neglecting cottage industries totally and giving small industries the minimum importance. It is the firm policy of this Government to change this approach. The main thrust of the new industrial policy will be on effective promotion of cottage and small industries widely dispersed in rural areas and small towns.

To bring about this change the industrial policy statement suggested six specific measures:

- It is the policy of the government that whatever can be produced by small, cottage industries must only be so produced. The number of products reserved for the small sector has been increased from 180 to 504. The list was enclosed to 807 items.
➢ Special attention will be given to units in the “Tiny Sector” namely those with investment in machinery and equipment up to one-lakh rupees and situated in towns and in villages with a population of less than 50,000.

➢ Special legislation will be introduced to give due recognition and adequate protection to the self-employed in cottage and household industries.

➢ The focal point of development for small scale and cottage industries will be taken away from big cities and state capitals to the district headquarters. In each district, there will be one agency to deal with all the requirements of small and village industries. This will be called “District Industries Centre”.

➢ Special arrangement for the marketing of products of the small sector will be made by providing services such as product standardization, quality control, marketing surveys, etc.,

➢ Technical change will be encouraged in the traditional sector.

When the Congress Government recaptured power at the Centre in 1980, a New Industrial policy was announced in July 1980 based on the proposition that “industrialization is the sine-qua-non of economic progress.” The salient features of the policy are mentioned here under:
a) To increase capital investment in tiny sector from Rs.1 lakh to Rs.2 lakh

b) To increase capital investment in the small sector to Rs.25 lakh; and

c) To increase capital investment in ancillary units to Rs.35 lakh.

Besides, the government intended to strengthen the existing arrangements to finance small-scale units and make changes if necessary to ease the credit problems of the sector. The system of reservation of items for exclusive production by small-scale units was also continued.

The industrial policy statement of 1985 also accorded importance to the small-scale sector and made some suitable policy changes. The definition of small-scale unit was revised to include all manufacturing units having investment in plant and machinery up to Rs.35 lakh. In the case of ancillary units, the investment ceiling was revised Rs.45 lakh. More recently, the definition was relaxed to include service-oriented industries and the Government increased the list of industries reserved for exclusive development in the small-scale industrial sector and the items reserved for purchase from it.
Small Industries and the Five-Year Plans

To protect the small-scale sector, the First Five Year Plan (1951-56) recommended a “Common Production Programme” to ensure that while large and small units both make their contributions to the total requirement of the community, the small units would fulfill the targets set for them.

An important landmark in the history of the development of small-scale industries in India was the visit of the international perspective team in 1953-54, which was jointly sponsored by the Government of India and the Ford Foundation. The team in its report recommended the setting up of a regional extension institute to provide services in technical, marketing and financial areas. In pursuance of the recommendations made by the team, four regional extension institutes were set up at Bombay, Calcutta, Delhi and Madras, to provide technical assistance to small industries.

The Second Five-Year Plan (1956-61) gave prominence to heavy and basic industries but did not neglect the small industries or the small producer. In fact, the basic philosophy of the Plan was not only to encourage small industries, but also to establish an economic order with the small producer at the centre. The plan also endorsed the ‘Common Production Programme’, and the proposal for non-expansion of the capacity of selected large-scale industries, the imposition of an excise duty on the production of some large industries, the development of industrial co-operatives and a scheme of special assistance to small industries.
The following Table 2.6 has shown the development of five year plan for small scale industries.

**Table 2.6**

**Small Scale Industries Development of Five-Year Plan**

<table>
<thead>
<tr>
<th>plan</th>
<th>period</th>
<th>Total village and small industries</th>
<th>Small scale industries (Rs. in crores)</th>
<th>% share of SSI on total outlay on village &amp; small industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>1951-56</td>
<td>42</td>
<td>5.20*</td>
<td>11.9</td>
</tr>
<tr>
<td>II</td>
<td>1956-61</td>
<td>187</td>
<td>56.00*</td>
<td>29.9</td>
</tr>
<tr>
<td>III</td>
<td>1961-66</td>
<td>241</td>
<td>113.06</td>
<td>46.9</td>
</tr>
<tr>
<td>Annual</td>
<td>1966-68</td>
<td>126</td>
<td>53.48</td>
<td>42.9</td>
</tr>
<tr>
<td>IV</td>
<td>1969-74</td>
<td>243</td>
<td>96.19</td>
<td>39.5</td>
</tr>
<tr>
<td>V</td>
<td>1974-79</td>
<td>612</td>
<td>221.74</td>
<td>36.3</td>
</tr>
<tr>
<td>Annual</td>
<td>1979-80</td>
<td>290</td>
<td>104.81</td>
<td>36.2</td>
</tr>
<tr>
<td>VI</td>
<td>1980-85</td>
<td>1780</td>
<td>616.10</td>
<td>34.6</td>
</tr>
<tr>
<td>VII</td>
<td>1985-90</td>
<td>2754</td>
<td>1120.51</td>
<td>40.7</td>
</tr>
<tr>
<td>Annual</td>
<td>1990-91</td>
<td>1819</td>
<td>392.10</td>
<td>-</td>
</tr>
<tr>
<td>Annual</td>
<td>1991-92</td>
<td>-</td>
<td>482.80</td>
<td>-</td>
</tr>
<tr>
<td>VIII</td>
<td>1992-97</td>
<td>6335</td>
<td>2862.10</td>
<td>-</td>
</tr>
</tbody>
</table>

* Excluding Industrial Estate

**Third Five Year Plan** (1961-66) aimed at a greater diversification of production in the small sector and a closer integration between the large and small sectors in specified items. Another scheme of the Plan was to reserve certain items exclusively for development in the small-scale sector.

**The Fourth Five Year Plan** (1969-74) accepted the policy of decentralized growth of industries. In July 1969, 14 major commercial banks of the country were nationalized and this helped to accelerate the flow of funds from the banks to the small sector. The main Programme during the plan were credit facilities under state aid to industries, training and common service facilities, quality marketing, and consolidation of the industrial estates programmed to be administered by the states.

**The Fifth Five Year Plan** (1974- 79) opened a new chapter by emphasizing removal of poverty by provision of many self-employment schemes through cottage and small scale industries, which received their due share in the plan allocation. The broad strategy of the programme for the development of the small industries was to;

- Develop and promote entrepreneurship and provide a ‘package of consultancy services’ so as to generate the maximum opportunities for employment, particularly self-employment;
- Facilitate fuller utilization of the skills and equipment of the persons already engaged in different small units;

- Progressively improve the production techniques of these industries so as to bring them to a viable level; and

- Promote these industries in selected ‘growth centers’ in semi-urban and rural areas including backward areas.

**In Sixth Five Year Plan** (1980-85), the Programmes for the village and small industries sector were so designed as to sub serve the following objectives:

- Improvement in the levels of production earning particularly of the artisans, through measures like upgradation of skills and technologies and produce marketing etc,

- Create of additional employment opportunities on a dispersed and decentralized basis;

- Significant contribution to growth in the manufacturing sector through *inter alia*, fuller utilization of existing installed capacities;

- Establishment of a wide external base through appropriate training and package of incentives;
Creation of a viable structure of village and small industries so as to progressively reduce the role of subsidies; and

Expand efforts in export promotion.

The Seventh Five-Year Plan (1985-90) period laid emphasis on industrial development strategies based on adequate infrastructure development incorporating the growth-centre concept and nucleus-plant approach together with appropriate ancillarisation. This approach also aimed at dispersal of industries in the rural areas.

The Eight five-year plan (1992-97), There was a gap of two financial years between the end of the Seventh Plan (1985-90) and the beginning of the Eighth Five Year Plan (1992-1997). The overall outlay envisaged in the eighth plan for industrial grand was Rs.40,673.43 crore out of which. Rs.35, 150 crore were for the central sector, and the balance of Rs.5, 523.43 crore, for the state sector.

Performance during Eighth Plan: The Eighth Five Year Plan was started in the backdrop of an impressive industrial growth during the 1970s and 1980s. The overall of industrial growth gradually increased from 2.3 per cent in 1992-93 to 6.0 per cent in 1993-94, 9.4 per cent in 1994-95 and 12.1 per cent in 1995-96. However, in 1996-97 it slumped to 7.1 per cent resulting in an average growth rate of 7.3 per cent against a target of 7.4 per cent during the Eighth Plan period.
The annual growth rates in the Eighth Plan have been lower than those in the Seventh Plan in all the three sectors of industrial activity though the growth rate in the manufacturing sector has been higher than targeted.

**Ninth Five Year Plan (1997-2001),** The Ninth Five Year Plan is a continuation of the process of planning. The specific objectives of the Ninth Plan have been as follows:

a. Priority to agriculture and rural development with a view to generating adequate productive employment and eradication of poverty;

b. Accelerating the growth rate of the economy with stable prices;

c. Ensuring food and nutritional security for all, particularly the vulnerable sections of the society;

d. Providing of minimum services like safe drinking water, primary health care facilities, universal primary education, shelter and connectivity to all in a time-bound manner;

e. Containing the growth of population;

f. Ensuring environmental sustainability of the development process through social mobilization and participation of people at all levels;
g. Empowerment of women and socially disadvantaged groups such as minorities as agents of socio-economic change and development;

h. Promoting and developing people’s participatory institutions like Panchayath Raj Institutions, Co-operatives and Self-Help Groups; and

i. Strengthening the efforts to build up self-reliance.

The Ninth Plan envisages a Gross Domestic Product (GDP) growth rate of 6.5 per cent per annum. There has been a slow-down in the rate of industrial growth in the recent past. The main reasons for this have been slow pace of investment especially in infrastructural sectors, lack of demand, inadequate availability and poor quality of infrastructure, global recession leading to slow-down in international trade etc. Taking into account the prevailing environment, and the measures taken to improve it, the target for industrial growth in the Ninth Plan has been set at 8.2 per cent in manufacturing.

**Tenth Five Year Plan (2002-2007)**, Although growth has strong direct poverty reducing effects, the frictions and rigidities in the Indian economy can make these processes less effective, and the Tenth Plan had therefore to be formulated in a manner that explicitly addresses the need to ensure equity and social justice.
The Tenth Plan (2002-2007) was prepared against a backdrop of high expectations arising from some aspects of recent performance. GDP growth in the post-reforms period had improved to an average of about 6.1 per cent in the Eighth and Ninth Plans from an average of about 5.7 per cent in the 1980s, making India one of the ten fastest developing countries. The objectives of the Tenth Plan:

1. Traditionally, the level of per capita income has been regarded as a summary indicator of the economic well-being of the country and growth targets have therefore focused on growth in per capita income or per capita GDP. In the past, the growth rates of GDP have been such as to double the per capita income over 20 years or so.

2. The approach paper proposed that the tenth plan should aim at an indicative target of 8 per cent GDP growth for 2002-2007.

3. Economic growth cannot be the only objective for national planning and indeed, over the years, development objectives are being defined not just in terms of increases in GDP or per capita income.

4. The tenth plan must set suitable targets in significant progress towards improvement in the quality of life of all people.
This policy also included efforts to be made to fashion rural communities as more or less self-contained in consumer needs, employment and basic amenities.

Allocations from the First to Tenth Five Year Plans, are shown in Table 2.6, they have steadily increased. There was an outlay of Rs. 5.2 crore only for the small-scale sector in the First Five Year Plan, which rose to Rs. 2,862.10 crore in the Eight Five Year Plan showing a nearly fourteen times increase in the five-decade period, which shows the sincerity and interest of the government in developing of this vital sector.

Although the small-scale sector has been recognized as an important element in the industrial economy of our country, there has so far been no statutory recognition of this fact. There have been repeated demands from the small-scale industries association that a more comprehensive legislation should be passed with a view to implementing the development Programme. The Administrative Reforms Commission on Small Scale Industries has also observed that the non-implementation of the industrial policy resolution of 1956 regarding the development of the large and small scale sectors has substantially been due to want of laws to implement the objectives of the industrial policy resolution. Therefore, the Commission recommended the constitution of a committee to go into the whole question covering all basic aspects of small-scale industrial development.
Based on the Commission’s recommendation, the Government of India constituted a Committee under the leadership of A.R. Bhat to identify specific areas where legislation was considered necessary for the promotion of the small industries.

The Committee in its report proposed legislation on the following aspects: policy statement, definition, reservation, collection of statistics, delayed payment, allocation of raw materials and limited partnership. Although the recommendations made in the report have been broadly accepted by the Government, no legislation has, yet been framed. It is considered that a comprehensive legislation on the lines of similar enactments in Japan and the USA would go a long way in placing the small industry development Programme on a sounder basis.

**Small-Scale Industries and Institutional Set-up**

The Government has been ever aware of the vital role played by the small-scale sector in the economic development of the country and has, therefore, accorded high priority to this sector. In a concerted effort to promote uninhibited growth and development of the small-scale sector, the Government has established a number of departments, corporations and agencies to help in the setting up of small-scale industries.

Small-scale industry is a subject allotted to the Department of Industrial Development, Ministry of Industries and Government of India. At the apex, level is the Development Commissioner of Small Scale Industries (DCSSI). The DCSSI formulates the policies in co-ordination
with the Planning Commission and is responsible for implementing and monitoring the policy through its network of Small Industrial Institutes in each of the states.

The other promotional agencies at the Central Government levels are National Small Industries Corporation (NSIC), National Institute for Small Industries Extension Training (NISIET), and Industrial Development Bank of India (IDBI), Industrial Finance Corporation of India (IFCI), Industrial Credit and Investment Corporation of India (ICICI), Khadi and Village Industries Commission (K & VIC), Council of Scientific and Industrial Research (CSIR), and India Investment Centre (IIC) etc.

The role of the Small Scale Industrial Board is to promote modern small-scale industries whereas the rest are for promoting industries. Since then, planning for modern small scale industrial growth has taken mainly two routes, the administrative mechanism covering institutions to deal with different aspects of small-scale industries such as technology, marketing raw materials, finance and entrepreneurship and policy instruments covering incentive schemes (fiscal, financial, general and backward area incentives) and reservation system.

The Department of Small-Scale Industries, Agro and Rural Industries within the Ministry of Industries are looking after the administrative mechanism of small-scale industries. There is a small industries development organization headed by a Development Commissioner of Small Industries, the Development Organization has 27
small industry service institutes, 31 branch institutes, 37 extension centers, 18 field-testing centers, 4 production centers and 2 footwear-training centers.

To provide different services and support to village and small entrepreneurs under a single roof, 422 District Industrial Centers (DIC’s) have been set up to cover 431 districts out of the total 436 districts of the country. (The four excluded districts are the four metropolitan cities). Industrial estates have been set up in different parts of the country to encourage the growth of modern small-scale industries.

The following Table 2.7 highlights the importance that small-scale industries have assumed in the economy, Government of India.

**Table: 2.7**

**Expenditure of Ministries and Department, Govt. of India**

(Rs. in Crore)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B.E.*</td>
<td>R.E.*</td>
<td>B.E.</td>
<td>R.E.</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>907.13</td>
<td>645.73</td>
<td>999.58</td>
<td>964.19</td>
</tr>
<tr>
<td>( - 0.74)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Revenue</strong></td>
<td>863.24</td>
<td>606.06</td>
<td>716.75</td>
<td>675.33</td>
</tr>
<tr>
<td><strong>Capital</strong></td>
<td>43.89</td>
<td>39.67</td>
<td>275.82</td>
<td>288.86</td>
</tr>
</tbody>
</table>

* B.E. = Budget Estimate, R.E. = Revised Estimate
Two types of Small-Scale Industries

1. Modern Small Scale Manufacturing Enterprises:

These are small firms using “Modern techniques to produce modern products”. These firms, by their very nature, are located in large towns in order to take advantage of external production economies; they use hired labor and raw materials supplied by large scale enterprises located at a long distance. Their market is dispersed in a region or throughout the country. Sometimes they operate in export markets.

The following Table 2.8 highlights the importance that small-scale industries have assumed through planned development.

Table 2.8

<table>
<thead>
<tr>
<th>Year</th>
<th>SSI Units</th>
<th>No. of industrial estates</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990 - 1991</td>
<td>17,938</td>
<td>60</td>
</tr>
<tr>
<td>1991 - 1992</td>
<td>18,939</td>
<td>59</td>
</tr>
<tr>
<td>1992 - 1993</td>
<td>20,975</td>
<td>77</td>
</tr>
<tr>
<td>1993 - 1994</td>
<td>23,978</td>
<td>85</td>
</tr>
<tr>
<td>1994 - 1995</td>
<td>29,175</td>
<td>65</td>
</tr>
<tr>
<td>1995 - 1996</td>
<td>34,246</td>
<td>43</td>
</tr>
<tr>
<td>1996 - 1997</td>
<td>38,196</td>
<td>51</td>
</tr>
<tr>
<td>1997 - 1998</td>
<td>45,771</td>
<td>191</td>
</tr>
</tbody>
</table>

Source: RBI Bulletin handbook of statistics on Indian economy 1999
2. Intermediate Groups of Small Enterprises:

These firms “use more or less traditional techniques to produce more or less modern products”. The orientation of these enterprises is towards urban areas, rather than villages, as they have to procure their raw materials from towns, which also provide markets for the finished products. They provide immediate large-scale employment and have a shorter gestation period and relatively smaller markets.

Problems of Small Scale Industries

Certain problems of small-scale industries arise out of difficulties, which are inherent in such units. Some of the major handicaps are briefly given in Table 2.9 as follows:

Table 2.9
Various Reasons for Sickness/Incipient Sickness

<table>
<thead>
<tr>
<th>Reason for sickness/incipient sickness</th>
<th>Proportion of sick/incipient sick units *</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total SSI Sector</td>
</tr>
<tr>
<td>Lack of demand</td>
<td>66 %</td>
</tr>
<tr>
<td>Shortage of working</td>
<td>46 %</td>
</tr>
<tr>
<td>Non-availability of raw</td>
<td>12 %</td>
</tr>
<tr>
<td>Power shortage</td>
<td>13 %</td>
</tr>
<tr>
<td>Labour problems</td>
<td>05 %</td>
</tr>
<tr>
<td>Marketing problems</td>
<td>36 %</td>
</tr>
<tr>
<td>Equipment problems</td>
<td>11 %</td>
</tr>
<tr>
<td>Management problems</td>
<td>04 %</td>
</tr>
</tbody>
</table>

**Raw Material:** This difficulty is experienced in a very pronounced form. The small-scale industries find themselves at a loose end in competition with large-scale industries and resources. The latter mop up all the raw material they can lay their hands on, and leave little for the small-scale industries. Of all the present difficulties, the non-availability of raw material at competitive prices appears to be the greatest. Financial weakness stands in the way of securing raw materials in bulk in a competitive market. “The entrepreneur does not get enough of what he wants, and what he gets is of poor quality and has to be bought at higher prices.”

**Production:** Small-scale units suffer from inadequate workspace, power, lighting and ventilation, absence of sanitary and safety measures etc. These shortcomings navel tended to endanger the health of workers and have adversely has affected the rate of production. Many units are following primitive methods of production. Either the entrepreneurs dislike adoption of modern techniques or it is not feasible. Units are suffering from shortage of finance required for modernizing equipment and expanding business. Wage rates and service conditions of small industries are not attractive to skilled labour.
**Marketing:** Lack of standardization, absence of trade names, absence of proper costing procedure, lack of contact with wider markets and absence of knowledge of techniques of marketing are also main constraints in the small-scale industrial units. Often small entrepreneurs are dependent on intermediaries who have a monopoly over the markets. They do not have the resources to advertise and their direct contacts with the customers are limited.

**Management:** Small-scale industries in our country suffer from lack of entrepreneurial ability and initiative. The inefficiency in management comes first among the managerial problems. The poor training imbibed by the owner-manager leads the concern to the brink of ruin. As the capital invested is very low, there is no scope for specialization in any discipline. Hereditary entrepreneurship, often lacking proper planning, forecasting, and involving family feuds, brings down the efficiency of the management.

**Financial:** Shortage of finance affects the viability of small units severely. Every kind of problem whether of raw material, power, transport or marketing faced by an entrepreneur, in its ultimate analysis, turns out to be a problem of finance. The small industry is elbowed out by the large and medium scale industries in the procurement of bank finance and institutional credit. Commercial banks suspect the stability of small industries and are not interested in lending the small amounts these industries require.
This problem of finance is vitally related to the problems of production, technical and managerial competence and marketing. Non-availability of timely finance has been the root cause of the above problems.

**Sickness:** A serious problem, which hampers the small-scale sector, has been sickness. Many small units have fallen sick due to one problem or the other. Research has shown that sickness is broadly caused by two sets of factors—internal and external. From among the various internal and external causes of sickness. The important ones are bad management, lack of accounting and management information systems, high rate of capital gearing, failure of the management to respond adequately to the changing, economic, social, political and technological environment, delays and cost escalation, inadequacy of finance, shortage of raw materials, outdated plant and machinery, low labour productivity, labour unrest, inflation and demand recession etc.

The main highlights of the third census of small-scale industries are as follows:
### Census of small scale industrial Sector

**Table 2.10**

Statistics of small-scale industries Third Census (2001-02)

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Registered SSI sector</th>
<th>Unregd. SSI sector</th>
<th>Total SSI sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Size of the sector</td>
<td>13,74,974</td>
<td>91,46,216</td>
<td>1,05,21,190</td>
</tr>
<tr>
<td>2. No. of rural units</td>
<td>6,09,537 (44.33 %)</td>
<td>51,98,822 (56.8 %)</td>
<td>58,08,359 (55 %)</td>
</tr>
<tr>
<td>3. No. of SSI</td>
<td>9,01,291 (65.55 %)</td>
<td>35,44,577 (38.75 %)</td>
<td>44,45,868 (42.26 %)</td>
</tr>
<tr>
<td>4. No. of ancillary units (% of No. of SSI)</td>
<td>45,797 (5.08 %)</td>
<td>86,516 (2.44 %)</td>
<td>1,32,313 (2.98 %)</td>
</tr>
<tr>
<td>5. No. of tiny units among SSI</td>
<td>8,82,496 (99.9 %)</td>
<td>35,43,091 (97.9 %)</td>
<td>44,25,587 (99.5 %)</td>
</tr>
<tr>
<td>6. No. of women enterprises</td>
<td>1,37,534 (10 %)</td>
<td>9,26,187 (10.13 %)</td>
<td>10,63,721 (10.11 %)</td>
</tr>
<tr>
<td>7. Nature of activity</td>
<td>8,72,449 (63.45 %)</td>
<td>33,03,366 (36.12 %)</td>
<td>41,75,815 (39.69 %)</td>
</tr>
<tr>
<td>Manufacturing/Assembling/Processing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Type of organization</td>
<td>12,21,702 (88.85 %)</td>
<td>88,62,548 (96.9 %)</td>
<td>1,00,84,250 (95.8 %)</td>
</tr>
<tr>
<td>Proprietary</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Partnership</td>
<td>99,190 (7.21 %)</td>
<td>1,03,662 (1.13 %)</td>
<td>2,02,852 (1.9 %)</td>
</tr>
<tr>
<td>Pvt. Company</td>
<td>33,284 (2.42 %)</td>
<td>38,153 (0.42 %)</td>
<td>71,437 (0.68 %)</td>
</tr>
<tr>
<td>Co-operatives</td>
<td>4,715 (0.34 %)</td>
<td>9,854 (0.11 %)</td>
<td>14,569 (0.14 %)</td>
</tr>
<tr>
<td>Others</td>
<td>16,083 (1.17 %)</td>
<td>1,31,999 (1.44 %)</td>
<td>1,48,082 (1.41 %)</td>
</tr>
<tr>
<td>9. No. of units having outstanding loan as on 31-3-2002</td>
<td>2,76,333 (20.1 %)</td>
<td>5,01,306 (5.48 %)</td>
<td>7,77,639 (7.39 %)</td>
</tr>
<tr>
<td>------------------------------------------------------</td>
<td>-------------------</td>
<td>-------------------</td>
<td>-------------------</td>
</tr>
<tr>
<td>10. No. of sick units</td>
<td>46,431 (3.38 %)</td>
<td>58,338 (0.64 %)</td>
<td>1,04,769 (1 %)</td>
</tr>
<tr>
<td>11. Reasons for sickness/incipient sickness: Lack of demand</td>
<td>1,11,508 (58 %)</td>
<td>4,35,121 (69 %)</td>
<td>5,46,629 (66 %)</td>
</tr>
<tr>
<td>Shortage of working capital</td>
<td>1,09,844 (57 %)</td>
<td>2,69,648 (43 %)</td>
<td>3,79,492 (46 %)</td>
</tr>
<tr>
<td>Non-availability of raw material</td>
<td>23,493 (12 %)</td>
<td>76,029 (12 %)</td>
<td>99,522 (12 %)</td>
</tr>
<tr>
<td>Power Shortage</td>
<td>33,099 (17 %)</td>
<td>77,345 (12 %)</td>
<td>1,10,444 (13 %)</td>
</tr>
<tr>
<td>Labour Problems</td>
<td>12,182 (6 %)</td>
<td>26,282 (4 %)</td>
<td>38,464 (5 %)</td>
</tr>
<tr>
<td>Marketing problems</td>
<td>70,202 (37 %)</td>
<td>2,24,002 (36 %)</td>
<td>2,94,204 (36 %)</td>
</tr>
<tr>
<td>Equipment problems</td>
<td>16,995 (9 %)</td>
<td>76,038 (12 %)</td>
<td>93,033 (11 %)</td>
</tr>
<tr>
<td>Management problems</td>
<td>9,124 (5 %)</td>
<td>21,088 (3 %)</td>
<td>30,212 (4 %)</td>
</tr>
<tr>
<td>12. Total employment &amp; Per unit employment</td>
<td>61,63,479 4.48</td>
<td>1,87,69,284 2.05</td>
<td>2,49,32,763 2.37</td>
</tr>
<tr>
<td>13. Total original value of Plant &amp; Machinery (in Rs. Lakh) &amp; Per Unit</td>
<td>30,32,868 2.21</td>
<td>24,56,492 0.27</td>
<td>54,89,360 0.52</td>
</tr>
<tr>
<td>14. No. of exporting units</td>
<td>7,344</td>
<td>43,262</td>
<td>50,606</td>
</tr>
<tr>
<td>15. No. of reserved products produced in SSI sector</td>
<td>877</td>
<td>382</td>
<td>878</td>
</tr>
</tbody>
</table>

Registered Small Scale Industrial Sector

All the small scale industrial units permanently registered up to March 31, 2001 numbering 22,62,401 were surveyed on complete enumeration basis, of which 13,74,974 units (61 %) were found to be working and 8,87,427 units (39 %) were found to be closed.

Of the 13,74,974 working units, 9,01,291 were small-scale industries and 4,73,683 were SSSBE. Thus, the proportion of small-scale industries was 65.55 %. About 5.08 % of the small-scale industrial units were ancillary units. The proportion of the units operating in rural areas was 44.33 %.

Among the working units, six States, viz., Tamil Nadu (13.09 %), Uttar Pradesh (11.85 %), Kerala (10.69 %), Gujarat (10.08 %), Karnataka (8.04 %) and Madhya Pradesh (7.41 %) had a share of 61.16 %.

With regard to closed units, six States, viz., Tamil Nadu (14.33 %), Uttar Pradesh (13.78 %), Punjab (9.32 %), Kerala (8.43 %), Madhya Pradesh (7.4 %) and Maharashtra (6.11 %) had a share of 59.37 %.

The employment was 4.48 per unit. The employment per Rs. one lakh investment in fixed assets was 0.67.
The rice milling industry topped the list in terms of gross output. In terms of exports, textile garments and clothing, accessories industry was on top.

Compared to the Second Census, the Third Census brought out some structural changes in the registered small-scale industrial sector. While the proportion of working units remained more or less the same, the domination of small-scale industries among the working units has been reduced considerably from 96 % to 66 %. This is mainly due to the increase in the number of units engaged in services. The per-unit employment has gone down from 6.29 to 4.48. The per-unit fixed investment has gone up from Rs.1.60 lakh to 6.68 lakh. This could be due to technological upgradation.

Unregistered Small Scale Industrial Sector

This sector has surveyed using a two-stage stratified sampling design. Out of the 9, 94,357 villages and urban blocks, 19,579 villages and urban blocks were surveyed to identify the units in the unregistered small-scale industrial sector. Out of these, information was completely received in respect of 19,278 villages and urban blocks, the enumerators selected 1,68,665
unregistered small-scale industrial units for survey, but they could actually survey only 1,67,665 units.

The size of the unregistered small-scale industrial sector is estimated to be 91,46,216. Of these, only 38.75% were small-scale industries and the rest were SSSBE.

The reasons for non-registration were elicited in the Third Census. Interestingly, 53.13% of the units informed that they were not aware of the provision for registration, while 39.86% of the units indicated that they were not interested.

About 45.38% of the units were engaged in services while 36.12% were engaged in manufacturing and the rest of the 18.5% in repair/maintenance.

The maximum number of unregistered small-scale industrial units 16.89% was located in Uttar Pradesh. The states having very high concentration of unregistered small-scale industrial units were Andhra Pradesh, West Bengal, Maharashtra, Madhya Pradesh, Tamil Nadu, Karnataka, Bihar, Rajasthan and Gujarat.

96.9% of the units were proprietary units and about 1.13% was partnership units.
About 10.13% of the units were women’s enterprises the socially backward classes managed 57% of the units.

**Total Small Scale Industrial Sector**

The size of the total small-scale industrial sector is estimated to be over one Crore (1,05,21,190). About 42.26% of these units were small-scale industries and the rest were SSSBE’s. The numbers of ancillaries among small-scale industries were 2.98%.

About 47.22% of the units were located in Uttar Pradesh, Andhra Pradesh, Maharashtra, Madhya Pradesh and Tamil Nadu.

The services sector emerged as the dominant component in the total small-scale industrial sector with a share of 44% of the units.

In terms of size, registered units were only 13%, but in terms of investment, new share was 59% and they contributed to 59% of the total production.

About 95.8% of the units were of proprietary type. Entrepreneurs belonging to socially backward classes managed about 56% of the units. The procurement of women’s enterprises was 10.11%. The number of enterprises actually managed by women was 9.46%.
Women employees accounted for 13.31%. The employees belonging to socially backward classes numbered 57.45%.

From the following Table 2.11 shown that the limits of investment of Small scale industries in India.

**Table 2.11**

**Investment Limits of Small – Scale Industries**

<table>
<thead>
<tr>
<th>Year</th>
<th>Investments</th>
<th>Additional Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>Up to Rs.5.0 lakh in fixed assets</td>
<td>Less than 50/100 Persons With or Without Power</td>
</tr>
<tr>
<td>1960</td>
<td>Up to Rs.5.0 lakh in fixed assets</td>
<td>No Condition</td>
</tr>
<tr>
<td>1966</td>
<td>Up to Rs.7.5 lakh in plant &amp; Machinery</td>
<td>No Condition</td>
</tr>
<tr>
<td>1975</td>
<td>Up to Rs.10 lakh in plant &amp; Machinery</td>
<td>No Condition</td>
</tr>
<tr>
<td>1980</td>
<td>Up to Rs.20 lakh in plant &amp; Machinery</td>
<td>No Condition</td>
</tr>
<tr>
<td>1985</td>
<td>Up to Rs.35 lakh in plant &amp; Machinery</td>
<td>No Condition</td>
</tr>
<tr>
<td>1991</td>
<td>Up to Rs.60 lakh in plant &amp; Machinery</td>
<td>No Condition</td>
</tr>
<tr>
<td>1997</td>
<td>Up to Rs.300 lakh in plant &amp; Machinery</td>
<td>No Condition</td>
</tr>
<tr>
<td>1999</td>
<td>Up to Rs.100 lakh in plant &amp; Machinery*</td>
<td>No Condition</td>
</tr>
<tr>
<td>2001</td>
<td>Up to Rs.100 lakh in plant &amp; Machinery*</td>
<td>No Condition</td>
</tr>
</tbody>
</table>

* With effect from October 2001, the investing ceiling in plant & Machinery in respect of 41 items covering two broad groups of Hosiery & Hand Tolls has been enhanced to Rs.500 lakh.

Sources: Ministry of Small-Scale Industries in India
REVIEW OF LITERATURES

Many studies have been made on small-scale industries, in general. Both the Central and State Governments have taken up a number of research projects on small-scale industries through people from the academic and non-academic sides since they provide employment to millions of workers besides bringing enhanced national income in terms of domestic income and foreign exchange.

There are numerous works dealing with the various problems faced by small-scale industrial units. This field of study is voluminous and various studies are available regarding the financial, production, marketing, and personnel management problems of small-scale industrial units.

Every aspect of small-scale units and their problems have been studied and some concrete results have been obtained but still there is scope to study the problems of small-scale industrial units. This chapter attempts to review the literature related to small-scale units.

In practically every country, developed or less developed, a substantial role has been assigned to the small enterprises in accelerating the pace of economic development and sustaining it. Even in our own country, small units have been taken up and are still expected to take up a substantial role in the process of economic and industrial progress.
Very often two factors have been primarily responsible for the co-existence of small-scale firms along with the larger units;

- The nature and size of the market for goods.
- The technical factors and resource availability, which favour smaller size on occasions.

For instance, small units have an advantage in utilizing limited quantities of localized raw materials for converting them into semi-finished products before passing them on to the large units for a higher level of manufacture.

Secondly, there are situations in which it is impractical to transport products over long distances either due to economic or technological reasons. The markets are then localized and are, more often than not, quite small. The small units will then tend to be the only economically viable form of production.

There are also various other factors which necessitate the growth of small firms.

- The necessity to utilize the not highly skilled labour force, coupled with the non-availability of adequate high-level entrepreneurs, suggests that small enterprises will be of primary importance.
- The paucity of venture capital inhibits growth of production and the demand for managerial abilities is less in the successful organization of modern manufacturing small enterprises though there lacunae.
The managerial function co-ordination in small units is inversely proportional to the need for it. The following basic factors any are responsible for the lack of efficient management in small-scale units.

- The smallness of size inhibits division of labour to some extent and makes it difficult to attract and pay professional managers.
- The owner manager is not an expert in the management processes.

K.V.Sirayya & VBM.Das (1990) notes that since independence small-scale industries are the chief means of livelihood for a large number of people. Accordingly, the Government of India convened a conference in 1947 that addressed itself to the development of cottage and small-scale industries.

The Report of the Fiscal Commission (1949–1950) refers to small-scale industries. It defines a ‘cottage industry’ as one, which is operated mainly, or primarily with the help of the members of the family either as a whole time or as a part time occupation. Further, a small-scale industry is one “which is operated mainly by hired labour normally numbering 10 to 50 hands”

Birandra Kumar Dixt (1988) Small-scale industries play a pivotal role in the industrialization of an economy. They are considered as harbingers of economic progress responsible for the transformation of a traditional economy into an industrial one.
James J. Berna who has studied “Industrial Entrepreneurship in Madras state” (1960), analyses the problems of small-scale industrial units as follows.

- Raw material problems,
- Working capital problems,
- Labour problems

Though he analyzed the various assets of the small-scale industrial units, he did not study the financial and marketing problems of small-scale industrial units, since it was beyond the scope of his research work.  

Ajay lakhanpal (1960), in his book, ‘Entrepreneurial Development with an institutional approach’ has studied financial facilities, various schemes of assistance, and the role of commercial and regional rural banks and various Boards. Constituted by the Government in the development of industries, He insisted on the need for training the entrepreneurs. However, he did not touch upon the managerial skill of the entrepreneurs of the marketing problems in small-scale industries.

The study team of the State Bank of India defined (1975), a sick small-scale industrial unit as one “which fails to generate internal surplus on a continuing basis, and depends for its survival on frequent infusion of external funds”.

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Nagendra P. Singh (1985) in his book, _The Importance of Small-Scale Industrial units in India_ explodes several myths, which have stood in the way of the development of the Small Scale Sector.  

H.N. Pathak (1975) in his study examined the problems of 200 small-scale industries in Gujarat and maintained that are interplay of factors like favorable timely and appropriate government policies and quick adaptability of the enterprises are responsible for all-round growth of entrepreneurial talent.

H.N. Pathak (1975) investigated the problems of small-scale industrial units in three stages inception, operation, and expansion or diversification but he has failed to give concrete solutions for the problems faced in these stages. 

S. Ashok Kumar (1998), in his study, has analyzed in detail the promotional efforts of 40 respondents in floating their respective enterprises. According to him, the task of promoting an enterprise may be considered an issue of out most concern to the entrepreneur.

Report AICC (1951), cottage and small-scale industries are of very special importance in India. If we lack capital, we do not lack work force. We must use this work force both to add to the wealth of the country and to reduce unemployment.
In (1973), Small Scale Industries are noted to be particularly suited for the better utilization of local resources and for the achievement of local self-sufficiency in respect of certain types of essential consumer goods like food, cloth and agricultural implements. 27

RBI Report (1990), in relation to some of the problems that need urgent solutions, they offer some distinct advantages. They provide immediate large-scale employment. They offer a method of ensuring a more equitable distribution of national income, they facilitate an effective mobilization of resources of capital, and skills, which might otherwise remain unutilized, some of the problems that unplanned urbanization tends to create will be avoided by the establishment of small centers of industrial production all over the country.28

The Reserve Bank of India revised the definition of sick small-scale industrial units in Feb.1987, according to which a small-scale industrial unit should be considered sick if it has –

a) Incurred cash loss in the previous accounting year and is likely to continue to incur cash losses is in the current accounting year and has an erosion on account of cumulative cash losses to the extent of 50 % or more of its net worth, and/or.

b) Continuously defaulted in meeting four consecutive quarterly installments of interest or two, half-yearly installments of principal on term loans and there are persistent irregularities in the operation of its credit limits with the Bank.

While both the conditions (a) and (b) should be satisfied in the case of larger small scale industrial units, it would suffice if either alternative (a) or (b) is satisfied in case of the tiny and decentralized sector units”. 29

“A small scale industrial unit should be considered as sick if it has, at the end of any accounting year, accumulated losses equal to or exceeding 50% of its peak net worth in the immediately preceding five accounting years”.

“In order to have a better understanding of sickness it is necessary to have a graphic insight into the anatomy of an industrial unit”, maintain Bedim and Mistral (1982). They draw an analogy from medical science and argue. “Before a pathologist learns about the natural causes and remedies of a disease, he has to study the anatomy of the human being”, to know about the “functioning of various organs, systems and sub-systems within the body”. 30

Natarajan, Krishnamurthy and Rao (1985) studied some sick small-scale industrial unit in India and identified seven symptoms of sickness:

- Cumulative losses resulting in an erosion of capital.
- Negative networking capital.
- Under utilization of installed capacity.

- Stoppage of production for a long period.
- Frequent interruptions in sales.
- Delay or default in paying the periodical install on term loan.
- Excessive and continuous dependence on external funds.\(^31\)

As Manimala (1991), observes, “The overall finding of such analyses is that financial ratios by themselves are not enough to predict sickness or turnaround, although they are very powerful indicators. The erosion of the capacity of the organization for sustained growth and the regaining of it may show up through other indicators, such as strategic management practices, human resource management practices, organizational culture, and so on”.\(^32\)

Ratten K.Sharma holds the view that (1985), “in a way, the health of a unit is reflected in the conduct of the account with the bank”. He further adds that “the frequency of visits of the clients to the bank, the nature and type of request for accommodation and their frequency, the mode of withdrawal of money from the bank-self coequal or cash etc., - are some of the signals that bankers take as warning”.\(^33\)

\(^33\) Ratten K.Sharma, “Industrial Sickness in India” 1985, P.No.19.
According to R.A. Yadar (1990), “the early signals and symptoms of sickness include under-utilization of capacity, irregular bank accounts, short-term liquidity problems, over-burden of debt, operating losses, adverse financial ratios, poor quality of products, poor labour relations, etc.,”\(^{34}\)

Some important symptoms of sickness, enlisted by Gangwal (1990), “are persistent shortage of cash or liquid assets, constantly worsening trend of current ratio, unsatisfactory debt equity ratio, defaults in payment to suppliers, employees, banks and financial institutions, and frequent requests for rescheduling the payment of the instalments”.\(^{35}\)

Banarsi Misra (1990) has identified the important symptoms of industrial sickness as:

- Shortage of liquid funds to meet short-terms financial and statutory obligations.
- Under-utilization of capacity.
- Declining return on investment falling below the prevailing rate of interest.
- Falling financial ratios, like current ratio, capital debt ratio, etc., and

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34. R.A. Yadar, “Assessment of Health of SSI” 1990, P.No.34.
• Low morale of employees and their greater turnover, poor maintenance of plant and equipment and frequent work stoppage, etc.,”  

According to D.K.Pal (1984), observed that an important symptom of sickness is persistent irregularity in bank accounts, request for non-projected extra facility, bouncing of Cheques and bills, non-receipt of information and accounts, non-payment of installments and interest, are some of the important symptoms of sickness. “Provide sufficient clues to the banker for having a deeper insight into the affairs of the constituent unit”.

N.L.Hingorani (1987), is of the view that the state of health of a unit. (Good, not good, or 'bad') may be assessed on the following parameters:

• Management abilities.

• Financial information, sales value growth, profit growth etc.,

• Information systems like submission of monthly stock statements and other financial statements.

• Bank-transactions record, covering movement in the accounts.

He, therefore, suggests that any adverse, deviations in one or more of the previously mentioned parameters may be early symptoms of sickness.

**Viability study of Sick Small Scale Industrial Units**

The gradual stages of sickness in small-scale industrial units, and the early warning signals and symptoms of sickness have been analyzed so far. Through an effective system of supervision and follow-up of advances and performance monitoring of the units they may detect the sickness at the incipient stage itself. They may promptly initiate the necessary remedial measures and restore the units back to health within a reasonable time and with lesser cost and effort. However, despite taking such preventive care, some units may fall sick, all the same.

Dr. Satish B. Mathur (1999), Viability studies involve a comprehensive investigation into the unit’s various functional areas, vise, finance, production, marketing, personnel, and corporate management, and the external factors influencing the unit. 39

**Causes of Sickness**

T.F. Frost (1985) is of the view that “the first step in curing an organization, is recognizing that a problem exists. However, eliminating the symptoms will not cure the illness. An understanding of how the sickness came about, along with willingness to dramatically alter a company’s orientation, if necessary, is the only way to begin a cure. 40

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R. Viswanathan (1982), the view that “by locating the causes with a fair degree of accuracy, it will be easy to initiate such remedial measures as may be appropriate”.41

J. Manimala (1991) has analyzed and summarized the major internal and external causes of industrial sickness. These factors affect all the units, “the explanation for one unit getting sick should be sought within that unit as to why there was deterioration in its capability to adapt to the changes in the environment. Hence, the distinction between external and internal causes does not seem to be relevant for turn around decisions”. 42

N.C. Joshi has identified (1987), the ten most widely prevalent individual causes of sickness, ranked in the descending order of their presence, as below.

- Inadequate working capital.
- Entrepreneurial incompetence.
- Errors in marketing
- Doubtful integrity
- Low-key market development effort.
- Low equity base,
- Faulty product selection
- Poor technical assessment
- Critical shortages of raw materials, power, etc., 43

S. Gangwal (1990), analyzed the causes of 119 sample sick small scale industrial units, financed by the Rajasthan State Financial Corporation and found that “the broad reasons of sickness were delay in project implementation, the problems pertaining to the management of the functional areas of production, marketing, finance and personnel and external problems”.44

T. Jothi Rani (1985), studied eleven joint venture units of the Andhra Pradesh Small Scale Industries Development Corporation, selected on deliberate sampling basis, and found that, “the main causes of sickness in these units were under-utilization of the installed capacity, shortage of raw materials and power, problems of marketing, delayed payments by government and large scale industries, shortage of working capital, improper government policies relating to taxation, production, pricing, distribution, etc. Managerial deficiencies like improper planning, wrong cost estimation, diversion of the funds, personnel deficiencies, and poor marketing and financial management”.45

P. Udhaya Shankar and Rao (1990), studied the case of 13 sick small-scale industrial units in the states of Orissa and Andhra Pradesh during 1984 and 1987 respectively, and identified the various causes of sickness as under.

- Lack of technical and managerial skills.
- Unplanned diversification,
- Heavy investment in building

 Improper machinery.

Improper product planning.

Over-dependence on a single buyer, including government departments.

Labour problems

Differences among partners

Sickness in the parent unit

Shortage of raw materials, power, transport, etc.,

Lack of co-ordination between banks and other financial institutions.

Changes in government policy. 46

K.C. Retty (1988) studied 11 cases of sick units in the small-scale sector in the Visakhapatnam and Vijayawada regions and concluded that the units had fallen sick largely due to the following reasons.

Inadequate finance, particularly working capital

Shortage of raw materials

Managerial deficiency

Poor and inadequate marketing avenues

Bureaucratic delays both from the government and financial agencies resulting in cost escalation and delay in starting consequent production. 47

R. Shanmugam (1990) studied 50 cases of engineering units in the small-scale industrial sector in Coimbatore, started by relatively young entrepreneurs, and found that mainly the following problems affected the small entrepreneurs.

- Poor Financial Planning and Management
- Poor collection of receivables (54 percent)
- Excessive stock level (10 percent)
- High competition,
- Power cuts
- Lack of sufficient orders
- Erratic supply of raw materials, and
- High incidence of sales tax and excise duty.  

A recent study by Khandwalla (1988) has identified financial institutions procedures and practices as an important cause of industrial sickness along with mismanagement, already identified by several earlier studies as a major cause of sickness.  

L.K. Naidu and A. Padmavathi (1988) made a study of 31 cases of sick small-scale industrial units in the Chittoor district of Andhra Pradesh. In 1986 and found that nearly two-thirds 63.7% of the total 31 sick small scale industrial units in the district or 63.7% units were sick due to two main reasons, viz., lack of finance 36.4% and lack of marketing facilities 27.3%. The remaining 36.3% units became sick due to lack of raw materials 18.3%, lack of skilled labour 9% and 9% due to mismanagement.

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M. Hejmadi (1990) studied the industrial health of 273 small-scale industrial units in the Dashing Kannada district of Karnataka, in relation to the level of education of the entrepreneurs and found that graduates were faring better than the non-graduates, or even post-graduates, in keeping the small industry healthy. He however, suggests; bringing the entrepreneurial movement to the doors of these educated unemployed youths, keeping in view the eradication of the growing unemployment problem and contributing to the industrial development of the backward areas of the District”. 51

According to N.C. Joshi (1983), “Industrial sickness is largely a phenomenon of dwindling financial viability so that the structure can neither stand on its own feet nor can it be made to stand by help from outside agencies”. 52

RBI Report (1988), “The built-in characteristics of the small scale industrial sector, such as relatively small size of initial capital equipment, entrepreneurship and employment generation potential, etc., render them an engine of balanced and decentralized development”. 53

D. Nagaiya (1989), “The employment generated in small scale factory units is nine times that of large establishments for an investment of Rs. 1 lakh in fixed assets”. 54

52 N.C. Joshi, solving industrial sickness on war footing, vol.54, 1983, P.No.184.
Further, for the number of job seekers on the live registers of employment exchanges, a small-scale industry assumes great importance in mitigating their problem of unemployment. It also facilitates the growth of the industrial sector and ensures all-round development of the economy. The study conducted by the Indian Council of Small Industries, cited by Bidani and Mitra (1982), identifies the following reasons for sickness in small-scale industries.

- Faulty planning and incorrect appraisal of projects.

- Limited loss-sustaining capacity.

- Delayed payments by large-scale industries and government undertakings.

- Stringency in working finance in several cases whereby the units come to grief due to temporary phases of holdovers and the bank’s hesitation in giving timely temporary assistance for short periods, delay in getting the expected cash incentive in respect of exports, revision of prices of raw materials (Purchasing agency with industry) by the government canalizing agency with retrospective effect, etc.,
Delay in implementation of the projects due to shortage of controlled items of raw materials. Cases are identified wherein buildings were not completed, water and electricity were not available in time but the commercial banks started enforcing the recoveries and charging interest even at penal rate.

- Shortage or non-availability of raw materials at controlled price at the right time.
- Disputes and labour trouble.
- Longer gestation period either at the initial stage or during the stage of expansion.
- Lack of marketing efforts and unexpected competition from larger units.
- Temporary phases of material shortage.
- Unit’s failure due to wrong product or wrong choice of area.  

**Internal and External Causes of Sickness**

Most of the Indian authors and researches have classified the various causes of industrial sickness under two broad categories:

- Internal causes, pertaining to the factors within the control of the management.
- External causes, pertaining to factors beyond the control of the management.

56. Ibid. P.No.120
Bidani and Mitra (1982) have listed the various internal and external causes of sickness separately under the four functional areas finance, production, marketing and personnel besides corporate management in general. They identify the internal causes of sickness, arising due to internal disorders in areas, like

- Finance functions including weak equity base, poor utilization of assets, inefficient working capital management, absence of costing and pricing, absence of financial planning, budgeting, and inappropriate utilization or diversion of funds.

- Production functions including wrong selection of site, inappropriate plant and machinery, inadequate materials control inadequate maintenance of plant and machinery, lack of quality control and lack of emphasis on research and development.

- Marketing functions including inaccurate demand forecasting, selection of inappropriate product-mix, absence of product planning, dependence on a few buyers, lack of market research and inappropriate sales promotion.

- Personnel functions including inappropriate wage and salary administration, bad labour relations, lack of behavioral approach causing disasters-faction among the personnel, and absence of work-force planning.
- Corporate management including improper corporate planning, lack of coordination and control, resistance to change, strife and lack of integrity in top management.  

External causes of sickness, arising from the changes in the environment, adversely affecting the four functional areas, as identified by them, are.

- Financial constraints due to credit restraint policy, delay in disbursement of loans, unfavorable investment climate and fear of nationalization.

- Production constraints due to shortage of raw materials, power, fuel and such other essential inputs, and import restrictions on essential inputs.

- Marketing constraints due to liberal licensing policy, restraint on purchases by bulk purchasers change in international market scene, excessive taxation policy of the government, and market recession.

- Personal constraints like non-availability of skilled workforce, wage, due to disparity in similar industries, general labour unrest in the area, and inter-union rivalry.

S.N. Bidani & P.K. Mitra (1982) observe, “The first and foremost reason for sickness is improper project planning and appraisal”, particularly in the small-scale sector. They also maintain that while the aforesaid causes of sickness are applicable to the small scale sector, too, “the prime reasons of sickness among small units is faulty disbursement of bank finance”.  

57. Dr. Satish B. Mathur, Sickness in SSS – Causes and Cures, Concept Publishing Co., New Delhi, 1999, P.No. 79
According to R.Viswanathan (1982), the major internal causes include low productivity of labour, high cost of labour, obsolete plant and equipment, obsolete technology, weak marketing department, inefficient and / or dishonest management, and poor financial planning resulting in high debt / equity ratio and / or low net working capital and current ratio. Among the major external causes of sickness, identified by him, is non-availability or high cost of raw materials, non-availability of power, water, etc., marketing difficulties and non-availability of finance.59

According to Banarsi Misra (1990), “the internal causes may be attributed to managerial sickness, lack of proper reporting system of accounting data, poor production, marketing financial and personnel management. The external causes may be attributed to changes in the environment resulting from economic, social, political, international or legislative changes which, in turn, cause financial, production, marketing and personnel constraints for industrial enterprises”.60

Internal causes of sickness, according to V.K.Agarwal (1987), include factors like choice of wrong location, under estimation of capital cost, over-estimation of demand, delay in implementation of the projects and cost escalation, lack of financial management and cost control, and managerial deficiency. The external factors causing sickness are recession in demand, shortage of finance and working capital, poor collection of bills receivable, diversion of funds and poor funds management, etc., Further, Agarwal is of the view that, among the agencies which are engaged in the process of nursing and rehabilitation, banks have to play the most important role”.61

According to D.K.Pal (1984), the internal factors, “which are within the control of management, include choice of wrong location, delay in implementation of the project, management deficiency or even unscrupulousness, lack of planning in lay-out, information system, repair and replacement of plant and machinery, lack of control on working capital and current assets etc.,  

The external factors, “over which the unit has hardly any control”, relate to changes in government policy, demand-recession, non-availability of essential raw materials and stores, adverse labour relations, paucity of working capital, power crisis, transport bottlenecks, etc.,

According to A.V.V.S.K.Rao (1988), the main internal causes of sickness in the small-scale sector are lack of finance and marketing ability, improper layout, machinery breakdown, high material waste and lack of production planning. The main external factors responsible for sicknesses in small units, according to him, are (faculty) government policy, recession in demand, shortage of raw materials and power, and obsolescence of the product. He is however, of the view that “sickness may be prevented through early detection and timely action”.

According to G.S.Sood (1987), “among the internal factors the most important factor for industrial sickness is management inefficiency”. The external factors of sickness according to him include recession and competition in industry, frequent changes in government policies inadequate and delayed financial assistance provided by banks and other financial institutions, erratic availability of raw materials, power, etc.

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64. G.S.Sood, Industrial Sickness; some issues, 1987, PP. 4-7.
According to M.Devendra Babu (1987), “the industrial units fall sick due to internal and external factors like inexperienced entrepreneurs, corruption and mismanagement, lack of demand for the products, shortage of raw materials, etc”. He suggests, “As the Board for Industrial and Financial Reconstruction (BIFR) has no jurisdiction over the small and ancillary units, a similar type of Board should be set up to tackle the problems of sickness which are widespread in the small scale sector also”.65

According to H.I.Rai and Brahmanandam (1984), while the internal causes are concerned with the choice of location, underestimation of cost and capital, over-estimation of demand, mismanagement, failure to introduce proper control techniques and tools, poor maintenance of machines and equipments and poor public relations. The external causes relate to changes in government policies, shortage of raw materials, power, transport, etc., non-availability of adequate and timely finance for working capital requirements, absence of industrial peace and mounting inflation. 66

M.V.Ratnam (1984) has examined the effect of inflation as a cause for sickness of the ageing units and traced a path to avoid sickness caused by inflationary effects. 67

K.P.Meena (1989) enlists the various causes of sickness in industrial units identified by banks (including the Reserve Bank of India), as:

1. Environmental (Scarcity and uneconomic price of quality raw materials, disturbed industrial relations, etc.)
2. Managerial (lack of technical and managerial expertise, etc.)
3. Operational (lack of market penetration, etc.) and
4. Financial (lack of proper financial planning and control).  

According to N.C.Joshi (1983) the various internal and external causes of industrial sickness in the small-scale sector. Lack of managerial and technical competence, decline in demand for their products from the medium and large scale industries, and the overall demand recession, delay in payment of bills by government departments and large units, lack of quality consciousness, poor marketing strategies etc.,

V.N.Nadkarni (1983) say, “Some industries are born sick, some acquire sickness and some have sickness thrust upon them”.

Industries born sick are those that are destined for disaster right from their conception due to one or more factors like lack of experience, faulty planning, and lack of capital, delay in project commissioning or

wrong location, flawed financial planning, and too much capital going into fixed assets, obsolete operational technology, and incomplete market surveys. Industries, which acquire sickness, are those, which fail due to internal causes like bad management, unplanned expansion, and stock mismanagement diversion of funds, avoidable expenses and personal extravagance failure to follow up receivables, faulty purchasing methods, poor maintenance, failure to modernize, labour problems etc.

The third category of sick units include those which have collapsed from external causes and problems, not of their own making, like shortage of raw materials and power, changes in government policies, delays in disbursement of loans by banks and financial institutions, etc.\textsuperscript{70}

According to T.Ramesh (1991), the main factors adversely affecting the health of small-scale industries are promoter has limited capacity to raise equity. Problems in raising institutional funds, delayed and insufficient working capital loans from banks, competition from multi-nationals and large-scale industries. Wild fluctuations in prices of raw materials, sub-optimal capacity utilization, fall in finished goods prices, scarce labour turnover, and scarcity of skilled work force. Poor maintenance management, lack of cooperation and understanding by the revenue collecting authorities, untimely and sudden seizures and closure of units by financial institutions.\textsuperscript{71}

\textsuperscript{71} T.Ramesh, “Problems of small scale industries,” The chartered accountant, 1991, P.No.557, 558, 559.
Some of the major causes of sickness, as revealed by several studies / surveys, have been summarized by V.R. Reddy (1990), as shown below:

- Delay in the implementation of the project due to various sanctions / approvals required by different government agencies.
- Long delays and inadequate financing by the financial institutions.
- Obtaining term-loans for creating fixed assets and under-utilization thereof.
- Problems relating to shortage of working capital funds, raw materials and power supply, and lack of marketing efforts / skills / channels.

Reddy is of the view that, “there is definitely a case for a detailed study into the need for banks / finance corporations to bring about more efficient performance of these institutions. He further observes, “The two major areas of weakness in the small industrial sector are management of marketing and financing functions”.72

**MISMANAGEMENT AS THE MAJOR CAUSE OF SICKNESS**

A Reserve Bank of India study, on the causes of sickness among the 341 sick industrial units and the case studies by Reserve Bank of India of 18 and 15 units, cited in the Tiwari Committee Report (1984), confirmed the earlier conclusions that mismanagement was the most

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72. V.R. Reddy “problems of small scale industries in India,” 1990, P.No.43, 46.
widespread cause of industrial sickness. The Reserve Bank of India study revealed that out of the 341 sick units, 222 (or 65%) of the units had fallen sick due to management deficiency mismanagement or wrong management decisions.

According to the Tiwari Committee, appointed by Reserve Bank of India, as a follow up of its earlier previously mentioned studies (1988), mismanagement “may take the form of poor production management, poor labour management, and poor resource management, lack of professionalism, dissensions within the management, or even dishonest management”. Further, according to the Committee, management deficiency may be classified broadly in two district stages of a project.

1. Sickness arising at the time of planning and during implementation, and
2. Sickness arising after implementation.73

According to Prithpal Singh (1990), “a review of the various studies made to determine causes of sickness in small scale industries highlights lack of management expertise as the most important factor responsible for extensive sickness”.74

Mr. Jatindranath Swain (2004) observes that, “There was a notion among the youth that business enterprises could be set up only in urban areas. However, in the present time, some small-scale business activities could be launched in rural areas too. Starting small-scale units in rural areas has its benefits for entrepreneurs; they could get workers at moderate wages. The other expenses, including building rents, would also be lower”.75

Further, he explains that while choosing their business, the rural youth should keep in mind their strength and skills, and they must be clear about their work. They could seek the help of the District Industrial Centre (DIC), which provides assistance and training for launching small-scale business.

According to R.Gopalakrishnan (2004), “State Governments and promotional agencies are coming out with plans for developing” clusters for a wide range of products – automobile components, power looms and handlooms, Jeans, Knitwear, food products, sago, grinder machine tools, rubber, coir, ceiling fans, engineering fabrication, pharmaceuticals etc. 76

D. Rajendran (2004) says, “The cluster activities, would help the small scale units to produce high quality products at competent prices”.77

According to R. Gopalakrishnan (2004), “One of the dreams of the small scale industry movement has been to change the situation whereby hundreds of thousands of small and especially tiny units operate in clime conditions. There have been no plans for their relocation and little financial support has been forth coming towards affording decent rental accommodation for tiny and small units”. Small-scale industries are no priority.78

77. D.Rajendran, “cluster development of small units,” The Hindu news, 28.11.2004, P.No.5
78. R.Gopalakrishnan, “SSI no priority in bank lending,” The Hindu news 7.11.2004, p.no.05
Mr. Ram Vilas Paswan, Union Minister for Chemicals, Fertilizers and Steel, (2004) said that, “In the coming years, the Indian chemical industry should aim at increasing its share by creating world scale manufacturing facilities backed by contemporary technologies. India must create a strong brand image not only for the lower cost, but also as the highest quality supplier of chemicals”.

Based on the report on petrochemical entrepreneurs are now engaged in the formulation of a national policy. The need for specialized industrial estates for the chemical industry has been felt the world over and they are at present conducting studies for the setting up of such mega chemical industrial estates in India.” 79

According to R.Gopalakrishnan (2004), “Small industries contribute as much as 35 % of India’s exports but it is a moot question whether small scale industrial exporters in general are taking advantage of the export-import policy initiatives and institutional infrastructure and whether other small-scale industries have looked at export as an important and increasingly necessary component of their activity”.80

D.Rajendran (2004) observed that, “The State Government is committed to financing development of small scale industries, under schemes, which are compatible with the World Trade Organization regime, such as cluster development and upgrading of infrastructure, according to D.Rajendran, Secretary, Small Scale Industries”.81

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According to Mr. P. Chidambaram (2005), “Involvement of community, target groups / recipients of the service, with easy access and feedback systems” is one of the important steps in the alteration of units.

R. Gopalakrishnan (2005) observed that the Report of the Abid Hussain Committee on the small industry sector, “if the revenue system depends on excise taxes based on the gross value or quantity of the final product, firms will be discouraged from sub-contracting out part of their operations. A system of taxation of value added at each stage of production would remove this disincentive to subcontracting to small scale industries”.  

According to the Report on the opportunities in the rural non-farm, sector by Sri Rang Jhan (205). “Rural communities as a combination of primary stakeholders should first of all do a SWOT analysis (Strength Weakness – Opportunities– Threat) in case they are really serious about industrialization. Accordingly, they can decide which industry would be best suited to a particular village or a cluster of villages. Any enterprise thus conceived has a greater chance of success. One should also understand that not every rural community might have potential for significant industrialization. Location, available resources, and access to market, public facilities and services and attitude of the people determine the industrial potential of any community. All these factors should be carefully examined during the SWOT analysis”.  

83. Ibid, P.No.5
Most of the villagers remain under-employed, especially when the agricultural operations are not on. They may set up some village cottage and small-scale industries, and cross the poverty line. To quote Mahatma Gandhi, “… the poor of the world cannot be helped by mass production, only by production by masses.”

Besides, small-scale industries remove regional imbalances and facilitate decentralized development in various parts of the country, including the remote areas, by effectively utilizing the locally available raw materials and other resources, including the workers.

N.Ragunathan (1988) says that the Industrial Policy Resolution of April 1948, rightly found the small scale industries as being “Particularly suited for the better utilization of local resources and for the achievement of local self-sufficiency in respect of certain types of essential consumer goods like food, cloth and agricultural implements”.

Stressing the role of small-scale industries in the development of our national economy, the 1956 Industrial Policy Resolution stated as under. “In relation to some, they need urgent solutions, they offer some distinct advantages. They provide immediate large-scale employment. They offer a method of ensuring a more equitable distribution of national income and they facilitate an effective mobilization of resources of capital and skills, which might otherwise remain unutilized. Some of the problems that unplanned urbanization tends to create can be avoided by the establishment of small centers of industrial production all over the country”.

84. SSI, 25 years of progress, development commissioner (SSI) New Delhi, 1973, P.No.07.
85. N.Ragunathan, former development commissioner (SSI), New Delhi, nov.27-29, 1988, P.No.02.
The 1980 Industrial Policy Statement enunciated the concept of economic federation in which there would be close organic linkages between the large and the small sectors that would generate a large number of ancillary and small-scale units.

Under the New Industrial Policy, announced on May 31, 1990, the investment ceiling in plant and machinery has been enhanced from Rs. 35 lakh to Rs. 60 lakh for small industries, with a view to facilitating the growth and modernization of the small-scale sector.

As would be observed from the fore-going industrial policy resolutions and statements, a significant role has been envisaged for small-scale industries in the development of the national economy.

According to Khan (1999), “Some foreign countries like China, Denmark, Egypt, Germany, Israel, Indonesia, Iran, Italy, Japan, Norway, Philippines, Sweden, Taiwan, Turkey, United Kingdom and United States of America, have stipulated different ceilings on the number of employees as one of the criteria for identifying a small scale industry. In some neighboring countries like Pakistan and Sri Lanka, however, no upper limit for employees has been fixed for small scale industries”. 86

N.Ravi (2001) says that, “The industrial landscape in India has been going through a phenomenal change over the last ten years. Entrepreneur-driven and globally networked industrial enterprises are fast becoming the emblems of a New India the onrush of new

technologies, it is perhaps inevitable that the new economy comprising, information technology, communications and entertainment bring had a tendency to elbow out the entrenched manufacturing sector. But that is no reason for believing that the future is unpromising for the country’s vast traditional industrial facilities which need to be geared for global competition”.  

According to S.Swaminathan (2001) says, the economy is currently at a difficult stage, some problems of growth are likely to be faced. Because of irregular monsoon for the second successive year, agricultural growth has been slow or absent in 2000-2001. Industrial growth seems to have slowed down and the sentiment for new investment has not improved”. Contrary to the perceptions of the Finance Ministry, the Union Budget for 2001-2002 envisaged a nominal growth in the Gross Domestic Product (GDP) of 12.75 % with the implication that the real growth rate would be around 6.75 % assuming an inflation rate of 6 %, given the fact that the industrial outlook, “continues to be uncertain and a cause of considerable concern”.  

L.M.Prasad (2005), observed that, “Around 25 to 30 % of existing companies might be forced to stop operations in the country in the next 2-3 years, because of the increasing change in the Indian economy which has moved from a regulated regime towards a more open and competitive economy. In this changing perspective, those who have capacity to compete and survive would emerge and take the place of old ones”.

87..Editor N.Rav, the Hindu, survey of Indian Industry, 2001, p.no.7.  
88. S.Swaminathan, the Hindu survey of Indian Industry, 2001, p.no.8  
This statement is not meant for public consumption only but is a reflection of reality. Even the most competent Indian companies have realized the pressure of external threats. Arun Bharat Ram, Senior Managing Director, SRF Limited, has expressed this international seminar on cost effective automation in 1999.

N.Ravi (2001) says, with the deepening integration into the global economy, Indian industry has become familiar with the obvious opportunities provided by wider markets and economies of scale, access to technology and capital even, besides trying to meet the challenges of modernization and producing at competitive prices goods of higher quality. Industry largely has adapted well to the new situation after some initial hesitation and while some sectors and some firms within a sector have been more successful than others have, there have not been major shakeouts.\textsuperscript{90}

Petter Druker (1997) says that, “in an entrepreneurial society, individuals face a tremendous challenge, a challenge they need to exploit as an opportunity, the need for continuous learning and relearning. Individuals will increasingly have to take responsibility for their own self – development and for their own careers”.\textsuperscript{91}

According to R.Gopalakrishnan (2005) says that, the National Manufacturing Competitiveness Council, in its draft paper on a national strategy for manufacturing, “small scale industries must be seen as

\textsuperscript{90} Editor N.Ravi, The Hindu, survey of Indian Industry, 2001, p.no.7.
breeding grounds for innovation and technology development when they become the technology source for layer companies. It is necessary to such technology development in SMES to enhance their competitiveness”.  

DE.Ramakrishnan (2005) observed that, an author and president, National Confederation of Small Industries, “A casualty has been financing for the small-scale industries and the tiny sectors, which have taken a fatal hit. This has driven a majority of them to sickness, incipient and in various other stages and many of them to mortality.

More over the high cost of funds, which even reduced financing has entailed, has robbed them of what little incentive was left for them to upgrade technologically and to modernize. So Basel I or Basel II, the priority of the UPA Government should be to see that the small scale industries and the tiny sector are not starved of funds”.  

P.M.Mathaw (2005) studied, “the small industry is a state subject. Naturally, the initiatives mooted by the state governments mean a lot in industrial development in a regional setting. However, given the poor financial position of most state governments, the allocations available for small-scale industrial development are far from adequate. This has been brought out by the recent report on state finances by the Reserve Bank of India.”

P.Chidambaram (2005) says, “The Government of India wants to give a push to the manufacturing sector so as to generate more employment opportunities in the country.” 95 There is a huge opportunity for India in the era of globalization, provided the entrepreneurs tap it wisely by improving the quality of their products, and that timber of their cost, delivery, technology and marketing strategies. Policies such as globalization and opening up of the economy should not deter entrepreneurs in any manner as they unfold tremendous opportunities.

The more than expected GDP growth of 9.3 per cent registered in the first quarter of 2007-08 is partly attributed to a modest revival in agriculture. The recent increase in inflation has been largely due to the rise in the prices of food items including wheat. The economy, which grew at 9.4 per cent, may not be able to sustain that pace in the coming quarters. Global factors such as the turmoil in the U.S. financial markets will take their toll on the domestic economy. The latest GDP growth data are no doubt encouraging but they do not indicate that the economy will grow at the same pace over the next nine months. 96

“The Centre has approved cluster development activities in three industrial towns which under the industrial infrastructure up gradation scheme and the project will be executed shortly once the funds are released”. The proposed cluster activities would be carried out in the leather and allied activates clusters. 97

95. P.Chidambaram, Finance minister, the Hindu, 25.5.2005.
96. The Hindu 8.9.2007
T. Venkatachalam studied the financial and non-financial problems of small-scale industries (2002), the total number of small-scale industry borrowing account (financially assisted by commercial banks) increased from 3.2 per cent at the end of December 1999.

The lending financial institutions look at the problem from the viewpoint of recovering their money. They regard an enterprise as sick if the recovery of their dues seems uncertain. In fact, default on debt service obligations has been included in some studies among the criteria to define failure of an enterprise. 98

S. Ramachandran (2000) studied on small-scale industries various problems and the growth analyzed. “Marketing has been identified as an important problem area affecting the growth of the small scale units. The competitive attributes are beyond the reach of the small-scale industrial units. Hence, it is concluded that a proper organization is essential in any form of business to overcome the difficulties in the field of marketing”. 99

The expectations apart, it had led to deceleration of agriculture growth affecting rural livelihood in India. “They need to counter the iniquitous aspects of globalization jointly on the one hand and support each other, on the other, by increasing intra-developing country trade and investment, although the developing countries are a heterogeneous group.” 100

100. Mr. Sarad Pawar, Union Agri. Minister of India, the Hindu, 26.03.2005.
T.Kannan observed, Industrialization of Southern Districts seminar (2005), “they have always heard that the south is under developed, underexploited and abounds only in social tensions. However, there is a hidden potential in terms of resources, talent pool and basic infrastructure. Industry will also realize that this is a low-cost solution to the problem of rising operational costs in major cities.” 101

Kalchetty Erosi (1989) observed, “In a labour abundant capital scarce country like India, small scale industries have come to occupy a significant position in the planned industrialization of the economy. They have great social and economic significance. They are relatively labour intensive and often generate more indirect jobs per unit of capital invested than the large firms”. 102

As M.A.Hasnat (1991) observes, the small-scale industries sector occupies a place of importance in the economy of all labour surplus countries as they provide employment for a substantial work force. Small industries derive part of their potential value from the employment of trained and educated persons. 103

According to Chandra B.L. (1994), the banks with their low cost financing would be ideal for lending to the agricultural sector, the small industries, small business and the self-employed. This would help relieve the rural poor from the clutches of the informal and unorganized lending agencies. 104

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101. T.Kannan, Managing Director, Thiagarajan Mills, the Hindu, 18.03.2005.
According to Veena Bhatnagar (1995), the strongest argument that could be raised in developing countries in favour of small-scale enterprises is their employment-generating potential.  

R.R.Khan shows (1979) that, small-scale industries are labour intensive industries with employment potential for a large proportion of the industrial and agricultural labour force. The Government has given due importance to this sector of the economy in order to eradicate mass poverty and to ensure a better standard of living for the people.  

Kripa Shankar argues (1968) that the problem of growing unemployment cannot be tackled except by laying emphasis on small-scale industries.  

V.P.Wani (1993) observes that the Government is giving encouragement to small-scale industries because of the advantage of lower capital intensity and greater employment generation.  

A.V.Arunkumar points out (1996) that economic development with emphasis on small industries has the potential to generate more employment opportunities.  

Narendra Prasad opines (1988) surplus agricultural labour can be utilized by small industries and the problems of India can be solved when it uses local raw materials and processes them into finished goods. Japan has a network of small industries on a labour intensive basis with the help of simple and light machinery.

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A.G.Kulkarni says that (1976) the objective of developing small industries in rural areas of the developing countries is to reduce the outflow of labour by creating employment opportunities locally. 111

According to N.K.Jain (1988), the small-scale industries are obviously more suitable as these are labour intensive, provide employment to more persons and yield more production with smaller investment.112

Michael Froment observed in (1996) the United States, according to a recent analysis of census data, “the smallest firms created virtually all of the new jobs in the country between 1989 and 1991. The same is true in a number of developing countries. In the Republic of Korea, Hong Kong and Singapore small enterprises accounted for 35.1 per cent of jobs in manufacturing in the mid-1980’s compared with only 29 per cent in the mid-1970. In Africa, micro enterprises constitute a huge growing source of employment. In Kenya, it is estimated that employment in small-scale enterprises raised more than three fold from 1981 to 1991”.113

N.K.Jain observes, “Equitable distribution of income is of vital importance in a growing economy. Small scale units located all over the countries have proved of much help in solving the problems of distribution by wider dispersal of employment opportunities among the local population”. 114

111. A.G.Kulkarni, Small Industries in various countries-Programme of Assistance, (New Delhi, Govt. of India, 1976) p.31
114. N.K.Jain, op.cit. p.221.
Narendra Prasad observes that the development of small-scale industries offer possibilities of growth into an efficient and decentralized sector of the economy, providing work opportunities and contributes significantly to the process of building up a self-sustaining and self-generating economy. 115

As P.S.Lokanathan (1976), points out small industries are welcomed and supported not only on economic but on social and even political grounds because they create a decentralized economy. 116

The major advantage of small-scale industrialization is its suitability for decentralized economic development, observes A.V.Arunkumar. 117

As H.R.Suneja states (1999), the development small scale industries is also helpful in ironing out economic disparities between states and regions through better dispersal of industries, in promoting economic development of backward areas and in checking massive exodus of rural populations to urban centers in search of employment. 118

According to S.Madhavan (1976) high priority is given to the development of small industries because the problem of vast unemployment and the paucity of capital could be solved more easily by encouraging decentralized industrial activity. 119
T.S. Redy and L.V. Reddy show (1988) that the small scale industries have made a significant contribution to the Indian economy by increasing exports, generating large scale employment opportunities, dispersing industrial activities and reducing concentration of economic power.  

For Gopal Swaroop (1979), the significance of developing small-scale industries in India lies in the fact that they are more employment oriented and are instrumental in removing imbalances in the distribution of wealth amongst the people and the various regions of the country.  

H.S. Pareek agrees (1978) with them by saying that the small-scale sector plays a predominant role in the Indian economy in terms of employment, production and export-potential. It also helps in diffusion of economic power and dispersal of wealth.  

K.B. Suri observes (1988) that, “The small industries sector serves multiple objectives, important among these being, 1) generation of immediate employment opportunities with relatively low investment, 2) the promotion of a more equitable distribution of national income, 3) effective mobilization of untapped capital and human skill, 4) dispersal of manufacturing activities all over the country, leading to the growth of villages, small towns and economically backward regions. 

S.R.Hashim (1988) observed, in the context of development, small sale industries have been potential to encourage first generation entrepreneurs. 124

H.S.Pareek observes that a number of factors such as large employment potential, favorable capital output ratio, developing entrepreneurship on horizontal lines, unearthing conservative family savings for capital formation and assisting in diversification and diffusion of economic power argue for the development of small-scale industries in developed and developing countries. 125

M.A.Hasnat (199) recognizes small-scale industries as instruments of social transformation, enlarging employment opportunities, broad basing entrepreneurship and securing dispersal of industries. 126

Gopal Swaroop observes that small industries are ideally suited to developing economic like India’s, not because of any sentimental or ideological considerations, but on purely economic and social grounds, which are as follows: i) socio-economic justice, ii) more labour intensive and less capital intensive, iii) healthy balance between urban and rural areas, iv) self-employment to technicians, v) ancillary functions in terms of specialization and profitability and vi) export promotion. 127

125. H.S.Pareek, op.cit. p.246.
Markandeya Jhan (1988) points out that the small-scale sector plays a pivotal role and creates, 1) high employment opportunities at comparatively lower capital investment, 2) scope for achieving regionally balanced economic growth, 3) geographical diffusion of trade, industry and commerce, 4) effective utilization of local resources skills and entrepreneurship and 5) decentralization of economic wealth and power.\textsuperscript{128}

T.N.Krishna Iyer (1993) Small-scale industries have been given special importance by successive Governments in the industrial development of the country. The strength of the small-scale industries lies in their low capital intensity, higher employment potential, low requirements of infrastructure facilities, quicker production requiring less gestation period, wider spatial dispersal of the units and better distribution of the industrial income.\textsuperscript{129}

M.A.Hasnat and B.K.Tareja (1991) assigns an important place for small-scale industries in the development of the Indian economy even in these days of large-scale industries. They offer

i) Continuous employment to agriculturists,

ii) Reduce of excessive pressure on land,

iii) High employment potential

iv) Require little capital

v) Ensure decentralization of industries,

vi) Competitive advantage,

vii) Low social cost,

viii) Prevent concentration of economic power,


The Need for Credit

T.N.S.Tarum (1986) Small-scale industries require only small investment in the beginning and their production process is labour-intensive. Yet, most of them find mobilization of the required capital very difficult because their own savings are small, the market is small and risky and they need a few years to establish themselves firmly. Credit is the *sine qua-non* for them. Sufficient finance is a prerequisite for proper organization, management and development of small-scale industries.¹³¹

But ensuring adequate flow of institutional credit to the small-scale industries sector has remained a ticklish problem. Inadequate access to institutional credit continues to remain a major problem faced by this sector. A number of studies have clearly established that the major cause for the large-scale incidence of sickness in the small-scale industrial sector is the non-availability of adequate and timely working capital from the banking sector.¹³²

As a result, the small entrepreneurs are forced to depend on the moneylenders, who lend at exorbitant rates of interest, adding to the financial burden further. As the Development Commission observes small-scale industries turn to sources other than institutional finance, to borrow money on terms manifestly exorbitant.¹³³

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