CHAPTER - II
REVIEW OF LITERATURE

P.N.Dhar and H.F.Lydall have staffed: “The Promotion of Small-Scale industries had been widely recommended as one of the most appropriate means of developing industry in over-populated, backward countries. Japan is usually held up as the great example of what can be done in this way; and now, even communist China is said to be following a similar Path, at least in the rural areas. In no country, however, has the doctrine of Small industry received such strong official support as in India. There are a number of reasons for this. The most important is the legacy of Gandhian teaching. In addition, the very wide distribution of existing small industry in India, the great Pressure of Population, and the shortage of capital have all tended to direct attention towards the small scale sector as a possible means of increasing output and employment in Indian industry for at least the next few decades”

Small-Scale industries are recognized as instruments of social transformation, enlarging employment opportunities, broad-basing entrepreneurship and securing dispersal of industries. They occupy a place of importance in the economy of all labour-surplus countries as they Provide employment for a substantial work force. They have a strategic role to play in the economic development of industrially less developed countries like India and remain important in the economies of the more highly industrialized countries. This fact is being increasingly recognized and an ever-increasing

Interest is being displayed now in the Problems of Promoting and developing small-scale industries all over the world.²

Small industry development is to accomplish objectives of contributing to industrial growth together with employment, contributing to industrial growth together with employment, dispersal of industrial units, development of enterprise and initiative-entrepreneurship, utilization of local skills and resources, developing feeder or ancillary industries and developing specialization in a technology which raises productivity without decreasing the employment potential.³

Industrial development in any region can also be measured in terms of growth of industrial employment. In fact, employment growth in industry can be considered as a crucial indicator of industrial development in a backward region. The backward regions suffer from chronic unemployment lower per capita income. Industrial development is expected to create employment opportunities and avenues for higher wages for skilled and unskilled labourers. Hence the growth of industries is not an end in itself but the means to sustain more employment, higher wages and better standard of living. Therefore the success of the industrial development depends to a greater extent on the growth of employment in any backward region.⁴

As cottage and Small-Scale industries being labour-intensive, more employment could be provided through their development. In underdeveloped countries with large reserves of surplus labour there is undoubtedly a case for paying special attention to labour-intensive and light industries scattered and decentralized rather than concentrating on capital-intensive heavy industries. So it is often argued that one of the most promising opportunities for employment lies in developing Small industries. The healthy development of Small-Scale industries would be of effective approach to the pressing human welfare problem of unemployment and would moreover provide a strong base for stable growth of a large sector of the Indian economy.5

Small-Scale industries help in reducing the Pressure on the country's balance of Payments in two ways: First, they do not require imports of sophisticated machinery or raw materials they are now producing electro-medical equipment, drugs, etc., which were imported earlier. Secondly, Small-Scale industries earn valuable foreign exchange through exports. A significant feature has been the rapid growth in the export of non-traditional items Small-Scale industries account for 45% of the total industrial production.6

Small-Scale industries, urban as well as rural, have grown in importance in developing countries. They are providers of jobs, as the unemployed and under employed would swear. Various five year plans have accorded to priority to Small-Scale and village enterprises for the same reason. They are generally labour-intensive. It is said that the

employment generating capacity of Small-Scale industries is eight times than of the Large-scale sector.

P.C.Mahalanobis had this to say on the employment Potential of Small-Scale and cottage Industries: “In view of the meagerness of capital resources there is no possibility in the Short-run, for creating much employment through the factory industries.... Now consider the house-hold or cottage Industries. They require very little capital. About Six to Seven hundred rupees would get in artisan family started. With any given investment, employment Possibilities would be ten or fifteen or even twenty times greater in comparison with corresponding factory industries”

The development of agriculture, of small sector and of organized industry is the sine qua non of an accelerated pace of growth. There cannot, therefore, be any real conflict between the small and organized sectors of industry. The rationale for long-run policy and programme should take into account the king of enterprises which show Promise of development. “The Policy for small modern enterprises in India should not be directed......towards the creation of more small units for their own sake, but towards a general improvement in the efficiency of existing enterprises and the creation of opportunities for enterprising new firms to be successful and to grow.”

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7. I.Bid pp-21
The Structure of modern Small-Scale industries has become very diversified. They are now manufacturing highly sophisticated capital goods, electronic equipment, electrical gadgets, ancillaries for transport vehicles, and components for telecommunications. As a result of the technological Progress achieved in this sector, more than 175 articles have been reserved for exclusive Production in the small-scale sector. Items like domestic electrical appliances, manual insecticide sprayers, clinical thermometers and such other items are now Produced only in small units. Production capabilities have also increased for items like baby food, cameras, electric lamps, Photoflash batteries, for engineering items like centrifugal chillers, sealed and semi scaled air compressors, machine tools, high frequency induction heating equipment, thread grinding machines, Precision measuring instruments, drugs and pharmaceuticals; and for miscellaneous items like cement, automobile tyres and tubes, calculating machines, electric typewriters, welding electrodes and are welding rods. 10

Industrial dispersal received a greater attention in the fourth five year plan. According to its document “The requirement of non-farm employment is too large and so widely spread the throughout the country that a greater dispersal of industrial development is a matter of necessity. Even from the narrow and immediate economic view Point, the Society Stand to gain by dispersed development. The cost of providing necessary infrastructure for further expansion of existing large urban and industrial centers is often much larger than what it might be if development was purposefully directed to occur in smaller towns and rural areas”11

Promotion of small scale industries has been accepted as a must for the growth of industrial employment in backward regions. Excessive dependence on large units for industrial development in a backward region may not be able to reduce regional backwardness. Because the large units often require more technical personnel, managerial staffs, which are often drawn from outside the region. Necessary raw materials are also drawn from outside as well as the market for their products also situated outside the region. Employment potential of these large units may be low. “In other words, such units merely become enclaves which have little relationship or relevance to the surrounding backward regions”. But if such large units can induce the promotion of small scale and ancillary units, then the establishment of large units can be welcomed. Development of ancillary and small scale industries will widen the scope of employment for local people, raw materials and local artisans. Growth of small scale industries which are linked to the region and have local market would definitely make stranger impact on the regional economy.12

Data on the small-scale sector are scant: those that are available are unreliable. This is the main reason why I.J. Ahluwalia excluded them from her study of industrial growth. The Economic survey for 1983-84 points out that “the production in this sector is not adequate reflected in the index of industrial production……(There) are statistical problems encountered in obtaining information from the small-scale sector regularly as the number of units is large, production activities are diversified and they are located in all parts of the country”.13

It is clear that the employment generated in Karnataka’s SSI in the year 1990, the jobs created in Small-Scale industries fell from 13.99% to 13.88%. It marginally increased to 14.09% in 1991. In 1992, the employment generated increased to 16.44% from the Previous year’s level of 14.09%. This is apparently due to the fact the full impact of the economic reforms was being felt from 1992 onwards. There was a marginal improvement in 1993 and in 1994, it almost touched the 1991 figure. In 1995, the momentum picked up and it touched 25.66%. In 1996, almost a 4% increase was achieved and the figure touched 29.58%. The best, of course, was to come in 1997 when the percentage increase touched 35.93%. One only wishes that such a trend continued for ever.14

The institutional arrangement available for the Small-Scale Sector can be broadly divided in to the national level or central financial institutions / agencies and the State level financial institutions / agencies. Besides these there are a number of other institutions / agencies catering to other requirement of the Small Scale industries which also need mention here for a better understanding of the importance of the small scale industries in the country.15

The Study undertaken by Venkateswar Roa entitled, “Impact Of DIC Programme On Rural Industrialization - A Study Of Two Districts” revealed that the growth of Small-Scale industries in terms of number of units, employment and

investment was more in Renga Reddy District compared to Mahabubnagar District. This implied that the agglomerative factors such as hearness to the city, market and infrastructure facilities had helped Renga Reddy District to achieve higher industrial growth. The Pattern of industrialization had been changing from traditional to modern in the case of Mahabubnagar District, whereas in Renga Reddy District modern industrialisation had been continuing over the Period, because of its locational advantage.16

The study undertaken by Jayalakshmi Kumpahla entitle “Role of DIC in TRYSEM” revealed that the Performance of DIC, showed a steady increase in the number of SSI and artisan units established and in the generation of additional employment opportunities, except during the year 1983-84, when the new scheme for Providing self-employment to educated unemployed youth, had just commenced. The study also revealed that about 23 per cent of the total additional employment opportunities created under DIC Programme, had gone to SC/ST communities.17

Satya Sundaram in his article, “what Ails DICs?,” pointed out that there should be better Co-ordination among all government and non-official organizations to assist DIC to provide a single window for entrepreneurs and serve as a focal point for industrial Promotion. The District industries center should be treated as autonomous bodies by the state government. They should be permitted to handle the Procurement and supply of

17 Jayalakshmi Kumpahla, “Role of DIC in TRYSEM”, SEDME, Hyderabad, Vol.XIV No.1, March 1987, PP.1-10
inputs and take up marketing functions. The man-power of a DIC should be strengthened so as to meet the specific needs of the units.\textsuperscript{18}

Sahney in his article, "Need for Technical support in DICs", stressed that DICs should have a complement of technical people, covering various disciplines and with experience in small industry operations in more common products in their respective disciplines, on the lines at the small Industries Service Institution (SISI). While these people should be encouraged to widen their area of expertise, there should also be a national roster of specialists in specific product technologies. While the former would act as general practitioners, the latter would render specialized advice when called for\textsuperscript{19}

Indian Institute of management in a study conducted in Andra Pradesh entitled, "Evaluation of DIC Programme- Andra Pradesh," observed that the single window committee of DIC recommended and request fast action as DIC, had no Powers to hasten and clear up delayed cases. Several entrepreneurs in every DIC had their cases long Pending with development agencies and local bodies due to the indifferent attitude and the lack of sympathetic understanding of entrepreneurial problems.\textsuperscript{20}

L.R.Reddappa Reddy in his study "Role Of DIC In Development Of Small Industries in Chittor District of Andra Pradesh", analysed the various incentive schemes applicable to SSI units. He suggested that DIC should streamline the administration of

\textsuperscript{18} Satya Sundaram, "What ails DICs?," Economic Times, August 4, 1988.
\textsuperscript{19} M.Sahney, "Need for technical support in DICs" Financial Express, Madras, September 13, 1988
\textsuperscript{20} Indian Institute of management (I.I.M), "Evaluation of DIC Programme – Andra Pradesh", Bangalore, May 1988
incentive schemes, particularly the subsidy scheme, relating to the Small-Scale Industries, in accordance with local conditions and needs.\textsuperscript{21}

Shetty in his article entitled, “District Industries Centre Programme – An Appraisal” critically analyse the various Programmes of DICs. The study revealed that the

i) DICs were not fully manned as per the restructuring names

ii) DIC functionaries got more involved in regulating rather than Promotional work

iii) Proper information, guidance, extension and training services for setting U.P. Small-Scale industries were not available and

iv) Units were facing difficulties in obtaining inputs like raw materials\textsuperscript{22}.

Dilip R.Shah in his study entitled, “Boosting Rural Industries through DIC, A case study” suggested that the tempo of rural industrialization could be boosted by reducing the gap between the schemes of DIC and their actual operation.\textsuperscript{23}

Umesh C.Patnaik in his study, ”Contribution of DIC Programme to SSI in India”, Pointed out that after lunching DIC Programme, the growth rate of SSI sector was less, particularly in the case of export and employment generation.\textsuperscript{24}


The study in Cuddapah District under taken by Reddappa Reddy, entitled “Rural Industrialisation-Role of District Industries centre”, revealed that the total number of entrepreneurs identified in the district had been showing a diminishing trend year after year. However, the study indicated that the Performance of DIC, in respect of training Programme, was satisfactory.25

Entrepreneurship play a critical role in the country’s economic growth. The industrial growth and economic development of a nation is largely dependent on it’s enterprising spirit. Besides being the vehicle of industrial development, entrepreneurship can offer solutions for self-employment potential, uniform distribution of wealth and balanced regional development. Entrepreneurship as an economic activity emerges and functions in a social-cultural settings. It could be conceived as an individual’s free choice of activity or a social group’s occupation or profession.26

Very often, the entrepreneurs are unable to present a collateral or guarantor of such a level, that would enable them to secure the required amount of capital from the organized sector. In view of this, the loans sanctioned by the organised sector is often inadequate. Even this, the entrepreneurs invest in the initial stages and face financial difficulties in running them subsequently. This Problem has been acutely felt by entrepreneurs of Malaysia and Bangladesh. The fact that financial institutions which have

26. Women Entrepreneurs: an Exploratory study, "Monthly public opinion surveys", VOLXLVII No.5 February 2002 p.p.27
sanctioned loans expect very early repayment, also poses a Problem to the entrepreneurs. This Problem is felt by the entrepreneurs of Bangladesh.27

In the area of marketing, effective market promotion measures which invariably incur heavy expenditure are often not undertaken by entrepreneurs owing to inadequacy of capital. This creates low market potential for products manufactured. The small enterprises, having very limited working capital face financial crisis which affects the production due to delayed payment made by consumers.28

In India the Small-Scale units are subjected to heavy taxation – income tax on the profits in the hands of the units and on the dividends/profits in the hands of shareholders/partners, excise duty on the products etc. It is worthwhile in this respect to study the situation in Japan. In Japan dividends received by individual is from Small-Scale units are subjected to lower rates of tax. In fact, even if the dividend income exceeds ten million yens, the rate of tax is only 10 Per cent. Further, corporate taxes on small entrepreneurs in Japan are lower than on large corporations. Thus as on long term measure, study should be undertaken to evolve a rational corporate tax structure to help the small-scale sector in our country. Differential rates of taxation for small industries are necessary for the purpose of capital formation, capital accumulation, modernisation and accelerate the process of self finance in the case of Small-Scale Industries.29

28. Ibid. PP.237.
A major issue facing India is how to introduce and sustain an efficient flow of technological innovations in its rural industry. This requires a high synergy among four elements—academic institutions, R&D organizations, Production enterprises and Promotion agents (technology guides and mentors. In India, these elements have low critical mass and the linkages are weak. It calls for a comprehensive assessment of the technology systems structure in order to initiate policy measures that will help India attain a sound rural industrial base.30

Since small industries sickness is largely the result of delay, negligence and willful default in decision making on the part of implementing agencies, institutional mechanisms should be devised to fix accountability / responsibility for such acts. Mere extension of the Provisions of the Board for Industrial and Financial Reconstruction (BIFR) to the small industries sector would be inadequate.31

Studies, both in India and abroad, have also shown that the high mortality figure in small industries is due to the failure of the management in the operation of these units. It has been found that 80 per cent of the units fail due to inefficient management than by any other single specific cause. The pitfalls that often inhibit the Small-Scale sector on the deployment of finance are: (a) over investment in fixed assets, (b) large built-up inventories, and (c) expanding the manufacturing and sales activities beyond the limits of financial resources.32

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30 Haribandu Pandu, Indian's Rural Industry: Assessing the Strength of its technological infrastructure "National Bank News Review" July-September 2001 Vol-17-No.3 PP.1
31 Shaikh muzaffar and Ahmad Umirkhan, Industrial Sickness Small Scale Sector, Southern Economics Vol.40, Number 2, PP.8, July 1, 2001.
"The basic problem or difficulty of a woman entrepreneur is that she is a woman". She faces problems not only at her work place but also from her own family and society. With joint families breaking up, many women simply don’t have the support of elders. In advanced countries women want and many have broken the bonds, which restrict their talents and capabilities. But it is not the case in developing countries. The women entrepreneurs in India are bound to customs, culture and heritage in their family. They are restricted to do business. They engage only in narrow range of entrepreneurship for example garments; leather goods, foods, pickles, papads, and in other small business which needs lesser investment.\[33\]