CHAPTER IV

ENTREPRENEURIAL POTENTIALS OF SMALL SCALE INDUSTRIES

Small industries in their different dimensions are an integral & continuing element both in the economic structure & in the scheme of national planning in India. They are the stepping stones for entrepreneurs to grow from small to big. Small industries have a substantial complimentarily with the large industries through ancillarisation & subcontracting & have proved to be instrumental for high level of industrial growth in the country.

Entrepreneurship in the small scale industrial sector has been sustained assiduously by the State & Central Governments through fiscal incentives & infrastructural support. The phenomenal growth of small scale industrial sector in the country during the last 50 years has been facilitated by a wide ranging scheme of assistance by the Government.

The changing economic scenario in the early nineties in the wake of new economic policy of liberalization & the recent policy of globalization has brought in new dimensions of challenges & opportunities for the small scale industrial sector in the country. This chapter is devoted to examine all these issues through an analysis of the following aspects:

i. Entrepreneurial potentials of SSI sector based on their basic economic characteristics.
ii. The complementarily between the SSI sector & the big industrial sector with special reference to the role of ancillarisation.

iii. The impact of new economic policy on the entrepreneurship in the SSI sector.

iv. The prospects for entrepreneurship in the SSI sector in the wake of new challenges & opportunities opened up due to economic reforms & the policy of globalization.

The analysis of the above aspects in this chapter provides a good theoretical backdrop for the empirical analysis of entrepreneurship development in the small scale industrial sector in the country & in the study area. Empirical studies have shown that small scale enterprises are an important vehicle for meeting the growth & equity with social justice objectives of developing economies. They act as breeding ground for entrepreneurs. In the post independence period in India as many as 20-25 million entrepreneurs have established enterprises in this sector & contributed to advancement of industry in the country.

Small industrial sector is a stepping stone for entrepreneurs to grow from small to big. The SSI sector provides inplant training to millions of entrepreneurs & motivates them to become innovative entrepreneurs to improve the economy.

Experience world wide shows that the development of small scale industries is one of the most cost effective ways of creating employment, spreading industry, catalyzing research & development & allowing entrepreneurial talent to grow.
The modern small scale industry because of its cost-effective substitutability with & complementarity characteristic to large industries are emerging as a dominant player in the industrial development of the country. Small scale industries with proper orientation & support may attract people who because of lack of technological & managerial know-how & ignorance of prospects offered by industry would remain in their present occupations or engaged in less risky activities such as commerce & real estate.

**Entrepreneurial Potentials of Small Scale Industries:**

Small Scale Industries have high potentials of entrepreneurship due to their basic characteristics.

1. Small scale industries have low capital intensity.
2. They have higher labour-capital ratio.
3. They need lower investment.
4. They stimulate indigenous entrepreneurship.
5. They facilitate an effective mobilization of resources of capital & skill which might otherwise remain unutilized.
6. They possess locational flexibility which serves as an effective instrument for achieving a wide dispersal of industries.
7. They promote more diffused pattern of ownership.
8. They need a relatively smaller market to be economic.
9. They promote innovative capabilities.

The following table provides details of competitive advantages of entrepreneurship of small scale industries.
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<tr>
<th>Advantage</th>
<th>Outcome</th>
<th>Examples</th>
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| 1 (a) Ability to perceive opportunities.  
(b) Action Orientation | Innovation & Technological Development | (a) Silicon valley (California)  
(b) Route 128 (Boston)  
(C) Research Triangle Park (Raleigh NC) |
| 2 (a) Ability to mobilize local resources  
(b) Risk Management | Development of Venture Capital | Informal Capital Market in India |
| 3 (a) Ability to Utilize Resources efficiently  
(b) Increased resource Specialization  
(c) Better Managerial Control | (a) Higher Profitability  
(b) Lower Factor Costs Particularly Labour Costs | (a) Bolton Report 1971 Wilson Committee 1979 (UK)  
(b) Large Percentage of new employment in US.  
(c) Salaries in Small Scale Sector in Japan are all most half of that in large industries |
| 4 Ability to react to rapidly changing environment | (a) Greater Innovative capabilities  
(b) Better equipped to compete in the growing service industry and in knowledge intensive industry. | (a) A large number of high tech industries have set up by entrepreneurs in small scale sector. |

(Source: Vasant Desai: Small Scale Industries & Entrepreneurship)
Empirical studies provide evidences about the low capital requirements, high employment generation & high value addition through investment in small scale sector. These in turn have provided greater opportunities for entrepreneurship.

(1) A study\(^1\) conducted by Vepa suggests that investment of Rs. 1 million in small scale industrial unit normally provides employment for 173 persons, while employment for the same number in a large industrial unit requires an investment of Rs. 5.31 million.

(2) Capital required per employee in small scale sector is Rs 2018 as against Rs 17753 in large sector.

(3) The value added per rupee of fixed investment in small unit is 0.96 as against 0.41 in large unit.

(4) Production per unit of investment in small scale is estimated to be Rs 5.60 as against Rs 1.80 in large units.

(5) In India The Small scale industrial units have accounted for more than 55 percent of production while using only 9 percent of imported raw materials.

Small scale industrial enterprises represent the fountain head of vitality for the national economy. The sector including village industries account for more than 55 percent of the gross value of output in the manufacturing sector & over 40 percent of total exports from the country. The SSI sector accounts for 80 percent of industrial

employment. A large number of more than 20 lakh SSI units in the country produce consumer goods for the market-domestic & international.

Small Scale Industry Entrepreneurship – The Experience of Developed countries:

Small industry is basically the mother of large industry. Entrepreneurship in small industry has been nurtured & nourished in all countries – developed as well as developing. Governments in all countries lay special emphasis on small industry. A great number of industrial enterprises are concentrated in the small scale sector. It should be remembered that small scale industry is not antithetical to large industry & large industry is not & cannot be a substitute for small industry.

Norman McRae² – the editor of the London based ‘Economist’ predicted in 1979 that the age of the mammoth corporations was over. He likened them to the giant ‘dinosaurs’ which once roamed the earth but died due to lack of flexibility in adapting to the environment. He observed that the future lay with the small, dynamic production groups that can respond quickly to customer needs. Peter Drucker the ‘guru’ of management in his book ‘Innovation & Entrepreneurship’ sees a shift in the American economy from a managerial to an entrepreneurial one & he noted the small businessman as embodying all the traditional American values. Mr. Ingersoll Chairman of – Warner-Borg of USA said “It is the small enterprise that not only creates new products & services but also ideas & most importantly, jobs. Increasingly big companies

are realizing that they must decentralize to the greatest extent possible & must, in effect create small entrepreneurial units in their overall structure, if they want to remain competitive.

Small business absorbs over 50 percent of labour force in Canada. Small Scale enterprises supply goods & services essential to consumers & other business & they demonstrate the innovation & entrepreneurship from which successful enterprises must spring.

Small Business Research in the UK indicated that small companies had created between 8,000,000 & 1.1 million new jobs in a period of six years---- small firms are regarded --- as a breeding ground for new entrepreneurial talent & new ideas, with flexibility of response & ability to adapt most rapidly in changing business environment.

Individual initiative & motivation have full sway in medium sized firms & those below down to cottage industries in Italy.

Japan is an outstanding example of those who have achieved rapid industrialization through the small & medium industries. Economist (Aug 2, 1980) 3 observed “—— The Japanese work more entrepreneurially in smaller teams. Companies flow into each big Japanese factory from many tiny mini firms, which operate under the big factory’s financial umbrella; along the automated production line, the factory’s ‘permanent’ workers, in teams of six or seven, are responsible for jointly

checking each product as it passes their stations; at the end of the line the completed product may be backed by a separate 5-10 employee mini firm. Small industry in Japan accounts for 37.2 million employees (81.4 percent of the work force) and 5.61 percent of the total value added in manufacturing & 79 percent of retail sales.

In China Small Scale Sector accounts for 60 percent of fertilizer 57 percent of cement, 28 percent of its pig iron, 13 percent of its crude oil, 67 percent of its agricultural machinery & 34 percent of its electric power.

Korea has reserved 110 products for the small & medium industry. Indonesia has reserved 12 items for exclusively production in the small sector.

SOME IMPORTANT INVENTIONS THAT HAVE COME FROM SMALL FIRMS & INDEPENDENT INVESTORS

Xerography
(Chester Carlson)

F M Radio
(Edwin Armstrong)

D D T
Self winding Wrist Watches

CJR Geigy & Co
(John Hanwood)

Insulin
Continuous Hok Strip Rolling

(Frederick Benting)
(John B Tytus)

Vaccum Tube
Helicopter

(Lee De Forest)
(John de la Cierva Heinrich Foche
JgorSikorsky)

Rockets
Mercury Dry Cell

(Alexander Fleming)
(Samuel Ruben)
Titanium (W J Kroll)  
Shell Moulding (Johnnes Croning)  
Cyclotron (Ernest O Lawrence)  
Cotton Picker (John and Mack Rust)  
Shrink prof Knitted Wear (Richard Walton)  
Dacton Polyster Fibre 'Terylene' (Eugene Houdry)  
Zipper (Whitcombe Judson  
Gideon Sundback)  
Automatic Transmission (H F Hobbs)  
Gyro Compass (A Kaemfe E A Sperry S G Brown)  

Power Steering (Francis Davis)  
Kodachrome (L Manner, L Coodowly Jr.)  
Air Conditioning (Withie Carrier)  
Polaroid Camera (Edum Lord)  
Heterodyana Rdia (Reginald Fessendain)  
Ball Point Pen (Lardislaa George Bird)  
Celle phone (Jacques Branden berger)  
Tengsten Carbide (Karl Schroeter)  
Bakelite (Leo Backland)  
Oxygen Steelmaking Process (C. V. Schwarf J Milr R Durrer )

Source: Technological Innovation its Environment and Management (US Dept. of Commerce 1967) Adapted from Ram K Vepa – Modern Small Industry In India 1988
Complementarity Between the Small and Big Enterprises

The entrepreneurship in small industrial units is fostered and sustained through ancillarisation and subcontracting. The tie up between the two have a complementary impact on the entrepreneurship in the small sector. In Japan the bulk of the small-scale industries is interlocked with large industries at various tiers. The parent unit takes the responsibility for the provision of raw materials, technical assistance and even credit to the subcontracting units.

In India ancillary development programme has received government support for many years. The process of ancillarisation is one of the most handy methods of encouraging new entrepreneurs to set up small scale units. This method of encouraging entrepreneurship is beneficial because the running of an ancillary industry does not give rise to complex problem which the uninitiated new entrepreneur will have to face if he is to run an independent manufacturing unit. Ancillarisation makes it possible for an entrepreneur to establish a coherent relationship with small and large units. The intersectoral cooperation known by different terminologies viz ancillarisation, subcontracting, vendor-vendee relations, preferred supplies etc. has become an inescapable part of large industrial projects. Ancillary industries manufacture parts or components for supply to other firms which manufacture or assemble end products. The main motivation for ancillary promotion lies in its effect on cost reduction, quality improvement and management efficiency. Ancillaries are generally medium and small scale industries. The parent unit is assured of quality product while it also helps in modernizing the small scale ancillary units apart from helping the small-ancillary units
with raw materials, technical know-how and quality control guidance. This way the process of ancillarization can induct complimentarity between the small and the large industrial units.

**Ancillarisation in Developed Countries:**

Ancillaries are playing a specially significant role in developed countries. In Japan about 60.7 percent of small units operate as subcontractors. An average large scale unit has about 24 small suppliers. The proportion of subcontractors in the total output is 46 percent in textiles, 26 percent in machinery, 25 percent in transport equipments and electrical appliances and 20 percent in automobiles.

In USA the number of ancillaries to Ford Motor Company is 50,000, to Dupont 30,000, to General Motors Corporation 26,000 and to US Rubber Company 14,000 units.

Ancillaries are most wide spread in British Automobile Industry and fairly wide spread in other countries.

In India 80 percent of the value of the final bicycle consists of such purchase components from small-scale units. In leather industry there is a higher rate of growth of small and ancillary units which serve the large shoe firms like Bata. Among the public sector enterprises HMT, BHEL, ITI etc. Have been successful in such kind of subcontracting process.

Generally speaking the quality of entrepreneurship that is required for managing an ancillary unit is different from that which is required for managing an independent small-scale unit. In an ancillary unit the entrepreneurship can be transplanted or even
injected into a technologist who can produce a few items to the exact specification of the large scale producer. The ancillary industries are a key component of the concept of small-scale industries. The growing dependence of large and medium scale industries on the small-scale sector for meeting their requirements of parts, components, and intermediaries, coupled with the policy of achieving higher levels of indigenization of items hitherto imported, has created a more congenial climate for the rapid growth of SSI sector.

Small scale industry is the beehive of entrepreneurship innovation and development. They are interlinked to each other and foster an integrated development. Small scale industries and entrepreneurship are the two faces of the same coin that is industrial development. Small scale industries in India have shown the growing spirit of entrepreneurship. Small scale industries have contributed over 100 lakh entrepreneurs in India. If we add entrepreneurs from small business, the growth of entrepreneurs increases many fold. Thus small business is the seed bed for entrepreneurship. These entrepreneurs continue to strive to excel in their fields. Many of them have grown big. — "small business is the open university for entrepreneurs to translate their vision and innovative ideas into a reality."  

Entrepreneurship in the SSI Sector and the Economic Reforms and Globalization:

An uneasy ambivalence regarding the small-scale industrial sector seems to be the hallmark of the new industrial policy which is unraveling as part of a grand design called structural adjustment. The new economic policy believes in competitive efficiency of economic enterprises and optimum productive utilization of resources.

"Competitive efficiency in terms of cost effective use of resources, value addition, productivity, financial discipline, marketing skills, customer orientation and technological competence is the driving force of the industrial system in the new dispensation. Any pattern of policy preference which defies this logic of efficiency for whatever social or political reasons can not but operate as a dilution of the objective of liberalization. This is the writing on the wall which small-scale industrial sector can only ignore at its peril" 5

The economic liberalization, freedom from political naivety involved in shifting compromises, can hardly justify any policy differentiation as between the large and medium industrial units on the one hand and the small-scale industrial sector on the other.

State Encouragement to Entrepreneurship in Small Scale Sector:

Small-scale industry has been provided with the powerful impetus on the ground that the SSI sector is an integral entity in the industrial system emerging in the country. The small-scale industrial sector has been assiduously fostered and is

accorded a vital role by public policy as a part of the mixed economy paradigm. The state followed a triple strategy of promoting the small industrial entrepreneurship.

i. State funded infrastructure complexes (industrial estate).

ii. Excise duty exemptions and

iii. Reservation of products for exclusive manufacture by the small-scale industrial units.

It is observed⁶ that the "economic objective of dispersing and decentralizing industrial activities in the country as a method of promoting or at any rate check mating concentrative and monopolistic pattern of industrial ownership and production and of stimulating employment opportunities in areas beyond traditional agglomerations was unquestionably sagacious approach."

State encouragement to small-scale entrepreneurship is implied in the provisions of the Indian Constitution itself. Article 39 clauses (b) and (c) of part IV of the constitution dealing with 'Direct Principles of State Policy' is an eloquent enunciation of the social significance of economic decentralization and in fact is terse yet persuasive plea for the small-scale industrial sector in the economic system. According to the Article, the State, shall in particular, direct its policy towards securing that the ownership and control of the material resources of the community are so distributed as best to sub serve the common good and that the operation of the economic system does not result in the concentration of wealth and means of

⁶ Swaminathan – Ibid.
production to the common detriment

The problem before the state is whether it has to jettison this concern over board. Particularly now that a new development paradigm of survival of the fittest in a marketised social and economic order has seized our collective consciousness. Whether policy makers themselves are adequately aware of the logical inconsistency between a molly codling patronage of the small scale industrial sector regardless of its competitive capabilities and larger and long term implications of economic restructuring, seems to be the moot point. The reform measures have no doubt disturbing ramifications.

The way out:
The small scale industries should prepare themselves to face competitions without looking up to the government for artificial suscitation via subsidies and fiscal concessions. The perpetuation of a protective regime which shields small industrial units from the discipline of a competitive market is incompatible with the rationale of new economic policy. The elimination of subsidies and fiscal props which are characteristic debilities has to be resorted to.

It is suggested that the concerns are not so much over the competitive challenge which may be posed by large industry as a consequence of the economic reforms as over the continued inadequacy of public policy in the matter of supporting the small industrial units with appropriate technical, financial and infrastructural means.

A bold new enabling framework for the small scale industrial sector needs to be developed in order that small units reemerge as organic parts of globally competitive
industrial economy. The process would certainly involve the abandonment of the primitive notions of small scale industrial units as specially ordained entities permanently licensed to function sans commercial viability & accountability for the resources employed.

The traditional weakness of the small scale industrial units – technological inferiority, lack of marketing savvy, constraints of capital and credit aside from managerial resourcefulness are becoming more transparent. The entrepreneur of a small scale industry has to adopt the right mix in terms of his approach to the four major areas, namely production, personnel, marketing & finance. An Entrepreneur can survive only through this judicious mix. The following table provides the strategic planning mix for the small scale industries.
Strategic Planning 'mix' for the SSI Entrepreneur

| Production: | Production-mix so that over reliance on one Product & one technology is avoided. | Coping with problems when technology changes. |
| Marketing: | Supplying to more than one unit & Not becoming over dependent on one | Coping with times when the large buyer unit itself is in difficulties. |
| Personnel: | Mix of full time & part time personnel. | Coping with availability & Keeping wage costs low. |
| Finance: | Mix of own & borrowed funds | For overcoming liquidity crisis for survival needs. |

**Marketing Entrepreneurship**

Many small entrepreneurs are technically sound but their greatest bugbear has always been marketing. They devote sufficient attention to problems of production while the marketing front remains neglected. It has therefore been rightly stated “There is market but no marketing”. The marketing corporations set up by state Governments
are certainly of some help but not adequate. The newly created Small Industries Development Bank of India (SIDBI) has been laying special emphasis & introducing new schemes of assistance for marketing support to the small sector. It is heartening to note that for the first time the concept of marketing entrepreneurship as against manufacturing entrepreneurship has been recognized. The SIDBI plans to assist service organization oriented towards marketing.

Conclusion: Exaggerated apprehensions that the new wave of delicensing of industry would spell doom of small industry have been largely disproved during the last few years. The small scale industrial sector has not only held its own but has been able to register growth rates in output, employment & export which compare more than favorably with the performance of large & medium industry. Economic reforms cannot operate as an instrument for the devitalisation of the SSI sector which has been assiduously promoted over the decades.

In a complex & dynamic global competitive environment adaptive capability is the key to survival & growth of the small scale industrial enterprises. The small industrial entrepreneurs will find themselves on the road to rapid growth when they have learned to think & act adaptively.