CHAPTER - I

INTRODUCTION

"SOME UNITS ARE BORN SICK" 1

... Pawar B.B.

1. SMALL SCALE INDUSTRIES (Development and Growth)

1.1 The small scale industries play a key role in the economic development of India. The small scale sector is the second major contributor to the industrial economy of the country. It accounts for 9.5 per cent of the country's factory ownership, contributes nearly 49 per cent (Rs.26,000 crores) of the total industrial production and exports from this sector exceed Rs.1,570 crores, accounting for 23 per cent of total Indian exports. Apart from direct exports, products of a large number of small scale units are exported through merchant exporters, export houses and other channels. In addition to providing direct (75 lakhs) and indirect employment to millions, this sector is also engaged in providing technical or commercial training to a large segment of rural and urban population who either cannot afford to seek higher education on pecuniary grounds or just cannot find a berth in highly competitive employment situation. Small scale sector's active role in providing a considerable range of products and services to the medium and large scale sectors is quite significant. Over the years, the small scale sector has reasonably mastered the
expertise to produce a large range of traditional and non-traditional finished goods in the form of consumables, consumer durables and industrial products. Besides the small scale sector has already established impressive records of performance from the point of view of the progressive quantum of earnings and introduction of additional product range.\(^2\)

The latest available figures indicating the place and growing importance of small scale industries in India can be cited here for the purpose of updating part of the above data. The number of small scale industrial units increased from 14.76 lakhs in 1986-87 to 15.92 lakhs in 1987-88, marking an increase of 8%.\(^{2A}\)

1.2 The significance of small scale industry as one of the keys to rural development hardly needs to be emphasised. Where motivation of development is present among the rural population the small scale industry acts as a stimulant and where motivation is lacking, it acts as lubricant. The development of entrepreneurship in backward and rural areas with a view to broad basing their existing skills and utilising local raw material would help attain the growth rate visualised for the small scale industry. Development of local skills, productive utilisation of local raw material and wastes and encouragement to entrepreneurs in backward and tribal areas are new directions to future small industry development.\(^3\)
1.3 From their inherent usefulness, because of their numerical superiority, small scale industries play a vital role in the growth of developing countries. They facilitate the tapping of the resources which otherwise would remain unused. These resources include entrepreneurship, capital, labour and raw materials. They can mobilize rural savings which may otherwise remain idle or which may be spent on luxuries or channelled into non-productive ventures. Small scale industries create employment opportunities at a relatively low capital cost. Small scale industries facilitate substantial foreign exchange savings and earnings. A wide range of consumer and simple producer goods now being imported can be economically produced domestically on a small scale basis as long as adequate facilities are provided. Small scale industries contribute significantly to the strengthening of the industrial structure, for many more articles can be produced more economically on a small scale than on a large scale. Small scale industries serve as seed beds on entrepreneurship. They serve a developing economy not only by their output of goods but by functioning as a nursery of entrepreneurial and managerial talent. This role of small scale industries is of decisive importance in any economy, wherein the industrial structure consists of few large scale and medium-sized industries on one hand and of large
numbers of traditional industries such as artisans, handicrafts and cottage industries, on the other. The concentration of industrial and other activities has given birth to the phenomenon of the so called pockets of development where economic and social change is achieved at a much faster rate than in outlying rural industries.

1.4 Promotion of small scale industries has been one of the main strategies for economic development in the developing countries since 1950's. Small scale industries play an important role in the productive activities of developed as well as developing countries. Japan is an outstanding example of those who have achieved rapid industrialisation through the small and medium industries. The Japanese work more entrepreneurially in smaller teams. Components flow into each big Japanese factory from many tiny and 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 station. At the end of the line, the completed product may be backed by a separate 5-10 employee mini-firm. This is a salient feature of Japanese industrial production in rural and urban areas. The small scale sector in Japan plays a
catalystic and predominant role in the accelerated growth of its industry. This has been made possible by a long span of regulated and disciplined process of industrial development backed by progressive legislation.\textsuperscript{5}

1.5 Agriculture supplies certain indispensable primary requisites, food for population, raw materials for the industries and surplus products for exports. No country, which aspires to be reasonably self-supporting, can do without agriculture. At the same time, no nation in modern times has grown rich through agriculture alone. With the growth of civilisation and the multiplication of human wants, the occupations associated with manufacturing industries have increased in importance and are very remunerative. Industrialisation has become a necessity and is virtually synonymous with civilisation.\textsuperscript{6}

1.6 India is predominantly an agricultural country. A proper development of small scale industries is vital for the healthy growth of our economy. The country can profit by Japan's bold experience in this direction, spread over more than three decades. Village and small industries in their different aspects are an integral and continuing element, both in the economic
structure and in the scheme of national planning. The primary object of developing small industries in rural areas is to generate better employment opportunities, raise incomes and standards of living and bring about the growth of a more balanced and integrated rural economy. The prevailing scarcity of capital for the promotion of large-scale industries and plentiful supply of labour favour the development of small scale industries. Besides, the setting up of small but efficient units of production at suitable locations throughout the country would reduce the cost of transport involved in the haulage of raw materials or finished products of centralised industries. The low purchasing power of the mass of the people tends to restrict the market and the scale of production in certain spheres; and the needs of the people have, therefore, to be met in several ways by production on a small, and often, on a semi-mechanised scale. Small scale industries are also essential for providing subsidiary or alternative occupations and the utilisation of local raw materials or catering to local markets. In short, village and small industries constitute a progressive and efficient decentralised sector which is closely integrated with agriculture on the one hand and on the other, with large scale industries. Small units exist and thrive even in highly industrialised countries. In
Japan, for example, the small units serve as feeders to the larger ones. These small units operate alongside large scale industries either on their own or in conjunction with larger units. In a developing economy, it is the small scale industry that constitutes the backbone of its economic structure. Its development serves to create vast employment opportunities for the people and effect decentralisation of industries by creation of industrial estates and makes possible a redistribution of economic power and income.

Small scale industries have acquired a coveted place in Government's new economic policy, more particularly in realising the primary national objective of reducing unemployment and under-employment in the country and thereby making it absolutely essential to secure a rapid and widespread development of labour intensive cottage, household and small scale industries. Rapid rural development depends upon proper functioning of small scale industries. This necessitates proper understanding of the concept at its micro-level. The need of the hour is scientific outlook and scientific management. Though a comprehensive knowledge of rules, regulations, incentives and procedures is quite essential, the development of innovative professional management skills in the faculty of planning, budgeting, organisation, market research, research and development
will produce a band of dedicated entrepreneurs to man the small scale industries in rural environment.  

1.8 Prior to independence, the small scale industries in India occupied an almost insignificant place in the national economy. The importance of small scale industries was underlined in the Industrial Policy Resolution of the Government of India in 1948. Till independence, only cottage industries, village industries, rural industries or agro-based industries were considered to be small industries. The National Planning Committee, set up in 1938, under the Chairmanship of Pandit Jawaharlal Nehru, constituted a panel to study the problems of small scale and cottage industries. With the dawn of the planned era in the country, the Government has been following a policy of promotion as well as protection of the small scale industries sector. The main objectives of development of small scale industries are:

a) to create vast employment opportunities for the people;

b) to effect decentralisation of industries by creating industrial estates;

c) to effect a redistribution of economic power as well as income; and
d) to raise the standard of living of the people.

These objectives mainly follow the principles of ideal goal of a Welfare State.⁹

1.9 In India, the State has taken a great interest in the development of small scale industries. It renders two kinds of assistance to them, viz. financial and non-financial. The State assists the small scale industries:

a) to improve their techniques of production and management;

b) to provide credit facilities, both for investment and for working capital; and

c) to provide common service facilities.

In order to coordinate these activities the Central Government set up a Small Industries Board, appointed a Development Commissioner for small-scale industries and established Regional Small Industries Service Institutes and a National Small Industries Corporation.¹⁰

1.10 The Economic Survey of 1988-89 of the Government of India reports that the steady progress of small scale
industries during the last few years has continued. According to the estimates provided by the Development Commissioner, small scale industries (DCSSI), the number of small scale units increased from 14.76 lakhs in 1986-87 to 15.92 lakhs in 1987-88 showing an increase of 8 per cent. These units produced goods and services valued at Rs. 85,700 crores at current prices in 1987-88, thus showing an increase of 18 per cent over the production valued at Rs. 72,250 crores, during the preceding year. Employment in the sector also increased from 101.40 lakh persons in 1986-87 to 107.00 lakh persons in 1987-88, thereby registering an increase of 5.6 per cent. Total exports from the sector in 1986-87 were estimated at Rs. 3,648 crores and showed an increase of 7.9 per cent over the previous year. The share of small scale sector in India's total exports was 29 per cent during 1986-87.11

1.11 Along with growth in the volume of production, there has also been progressive diversification in this sector. The Sector produces more than 5000 items. Its contribution has been most noticeable in important segments of electronics industry. It contributes about 45 per cent of production in the field of consumer electronics, 75 per cent of production in instruments and instrumentation and 45 per cent of
production in computer and allied items. The progressive growth of this sector is attributed to a number of promotional measures:

a) The Government has provided reservation of products for exclusive production in the small sector.

b) The small scale sector is also given purchase preference in Government procurement.

c) Infrastructure support is provided through industrial estates, the District Industries Centres, Small Industries Service Institutes and other specialized Institutes which provide technical assistance and testing facilities, etc. with a view to improving the quality of products; e.g. eight electrical items of mass consumption have been brought under compulsory ISI certification.

d) The Government has provided better access to scarce raw materials, and

e) Small scale units also get concessional interest rates and priority in the disbursement of loans by the Financial Institutions. Some important Policy initiatives have been undertaken specifically for tiny units in the small scale sector. During 1987-88, a National Equity Fund was established with the object of rendering special
attention to the needs of smaller among the small scale units. The Government of India has provided Rs. 5 crores towards the Fund with a matching contribution from the IDBI. The Scheme is being administered by the IDBI and operated through Nationalised Banks. Under the Scheme, assistance is to be provided by way of seed capital, in the form of soft loans.

2. PROBLEMS OF SMALL SCALE INDUSTRIES

2.1 Recognizing the important role played by the small scale industries in National Economy, the Government - Central as well as State - have taken active steps to promote and foster the growth of small scale industries. Even when the steps taken by the Government are effective, the small scale industries are facing problems in production, distribution and finance. Some problems are common to a wide range of small scale industries, while others have particular relevance to a group of small scale industries and small scale industries situated in rural and backward areas. To improve the prospects and position of small scale industries and to foster industries, surveys on the "industrial outlook" for different small scale industries have been conducted, on an All-India and a Regional basis so as to build up data on economic background, by Economic Investigation Team attached to Small Industries Service Institutes in each State. These surveys have
thrown valuable light on the various difficulties and problems faced by different small scale industries.  

2.2 The problems of small scale industries are of two types:

a) External and
b) Internal.

External problems are those which result from factors beyond the control of the industrialists, for example, the availability of power and other infrastructure facilities required for smooth running of the industry.

Internal problems are those which are not influenced by external forces, and relate to organisation structure, production channel, distribution channel, technical know-how, training, industrial relations and inadequacy of management, etc. However, the internal as well as external problems are not mutually exclusive. They are correlated.

2.3 Unlike organised sector, the sector of small scale industries has a weak financial structure and has limited resources. In the small scale industry, the Proprietor or the Partners, or, if the Unit is a Company, its Director or Directors, have to take care of all the problems by himself or by themselves.
The sector of small scale industries cannot influence its raw material suppliers, its customers and the Government in framing its policies.

2.4 From the moment a small scale industrialist conceives the idea to start his own unit, he has to work against heavy odds. A small scale industrialist has to rely on himself for the preparation of a Project Report, collection of the data on marketability of the product, the availability of raw materials, the manufacturing techniques involved, the choice of machinery involved, and the choice of location. The small scale industry also faces a problem to obtain the permission of and licence from the Industries Department of the State, local bodies, etc. The small in the small sector does not know how to make an approach and avail itself of the various facilities announced by Central and State Governments. If the production programme calls for imported machinery or raw materials, the small scale industrialist has the additional problem of obtaining suitable licences and of going through import procedures which keep on changing frequently because of changes in the Government's policy.

2.5 Small scale units, as is well known, are not exclusively and not even mainly dependent on Government
assistance. Most of the units owe their origin to the spurt in the demand for their products either in the local market, the neighbouring or distant markets, or in a combination of markets. The initial investment of these small units comes mainly from within, most of them invest their own funds or borrowed funds (mainly from relatives, friends and professional lenders). These small units are not in a position to offer the guarantee required by the banking sector. The procedure of small loans raised by Government agencies is so cumbersome that most of the small scale industrialists who are either illiterate or semi-illiterate hesitate to make use of these facilities. Many established small units hesitate to approach institutional financial agencies (including Government agencies) because of their traditional tie-up with non-institutional bodies and also because of their lack of training, especially in financial matters. Moga study conducted by Mr. V.S. Mahajan found that almost all 300 and odd small units engaged in the production of agricultural implements were started with own funds and funds borrowed from relatives and friends and that the nationalised banking sector and State Financial Corporation have contributed very little to them. Small scale industrialists
do not have sufficient funds of their own for fixed capital investment, nor can they obtain the necessary resources from institutional agencies if the latter are doubtful of the former's ability to repay the loans in time. The shortage of funds makes it difficult for them to install modern machinery and tools and to maintain well organised and fully equipped factories. Small scale industrialists cannot buy and store good quality raw materials or stock their finished products, pack their goods attractively, have any sales organisation of their own or furnish security deposits, wherever necessary. State Finance Corporations take several months to take decisions on extending term loans. Banks are also not quick enough in disposal of loan applications. Bank assistance is available only for working capital and not so much for initial capital or future expansion. Banks and other financial institutions have not shed their traditional attachment to liquidity and safety of resources. The small scale industrialists have no knowledge of the availability of varied financial assistance for the development of their industries. The lack of education and proper exposure to financial management, makes it difficult for them to avail of financial assistance from various sources.
2.6 The problem of raw materials has been extremely acute for steel based industries like bicycles and parts, sewing machines and parts, automobile leaf springs, agricultural implements, etc. The shortage of special steels such as chrome-vanadium steel and chrome-silicon steel is even greater. Small scale manufacturers complain that since some companies supply steel only in wagon loads, they cannot obtain their requirements. There have been complaints of inordinate delays between the placing of orders and the receipt of supplies. In the face of any infrastructural crisis, the small scale sector is the first casualty. The availability of raw materials has been a great problem in our country. Some of them are chronically in short supply; some are very scarce at times and abundant at others; and there are great price variations. Manufacturers and suppliers very frequently create artificial scarcities and rig up prices. Even the Government, because it is politically motivated, often throws the trade into complete confusion by frequent changes in policy, especially in regard to controls. 17

2.7 One of the major handicaps of the small scale industries sector has been the absence of latest technology which alone can ensure quality and high rate of productivity. Marketing is one of the major stumbling blocks
for small scale industries. The problems in marketing are:

1. Lack of standardisation
2. Poor designing
3. Poor quality
4. Lack of quality control
5. Lack of precision
6. Poor finish
7. Poor bargaining power
8. Lack of service after sales
9. Scale of production
10. Brand preferences
11. Distribution contacts
12. Lack of knowledge of Marketing
13. Competition
14. Ignorance of potential markets
15. Unfamiliarity with export activities - Procedures and market know-how

In the absence of marketing channel of their own, many small units sell their products to large selling houses. The large companies make handsome profits from marketing the products of small units by charging a much higher price from the consumer.18
2.8 One of the most difficult problems of small industrialists today is handling labour, which is a major contributor to industrial production and is one of the most difficult tasks of industrialists because of the human element involved in it. One has to keep abreast of the maze of labour laws, changing from time to time. It has, therefore, to be handled with patience and understanding. Unfortunately, trade unionists politicalise the problems of labour and at times even create a problem where there was none before. To protect their vested interests, politicians often prevent a settlement of a dispute between labour and employers, and thus, work against the interests of both.

2.9 Due to indiscriminate sponsoring of small units through campaigns undertaken by the promotional agencies to select unemployed educated and technically qualified persons as industrialists with pressures on financial agencies like banks to finance without adequate evaluation of the projects "infant mortality" among them is very high. Even viable small scale units have to struggle for survival.
3. **SICKNESS IN SMALL SCALE INDUSTRIES**

3.1 As in case of human body, sickness in industry also very often, sets in rather imperceptibly and gallops into the chronic stage, if not detected and arrested at an early stage. Sometimes the seeds of sickness are, in some cases, sown right at the implementation stage. As a result "some units are born sick". Continued sickness in an industry leads to closure, stoppage of production, locking up of investment. Also, sickness in one industry may affect other industries, which are either dependent for supply of raw materials or consume the product of the former.\(^\text{20}\)

According to Sarkar S.C. (1985), the phenomenon of sickness of industrial units is widespread and costly in financial terms. The amounts lent by banks and financial institutions are not the only amounts blocked in sick industrial units. The amounts invested in capital structure, the amounts of the credit obtained from the other sources by the sick industrial units are also matters of national concern. Industrial sickness has affected industries of all types and in all regions of the country.\(^\text{21}\) In economies like this a sick unit is either pressed into recovery or is liquidated by market forces. In our society
of controls and complex labour legislation, a sick unit is not permitted to die a natural death. The problem of nursing a sick unit is not of competence but of official intervention. The growing problem of sick industrial units has also created serious problems for the banking industry.22

3.2 Industrial sickness in the small scale sector and cottage industries has assumed very serious proportions. There has been a good deal of discussion in recent times regarding the need for finding a solution to this problem. On the one hand, the Government has been encouraging the establishment of new industries in the small scale and tiny sectors by providing varied incentives and liberal financial assistance and, on the other hand, industrial sickness among these units has been spreading, resulting in the closure of many. The National Census of Small Scale Industries 1972 reported that 38 per cent of the registered units (98,476) were either not traceable or permanently closed. The number of small units registered has increased from 2.58 lakhs in 1972 to 3.68 lakhs in 1980. Over 1.50 to 1.66 lakhs small scale units have been on the sick list. The number of small scale sick units has increased from 1.18 lakhs at the end of December 1985 to
around 1.46 lakhs at the end of December 1986. According to the Economic Survey, 1988-89 of the Government of India, the number of sick units (SSI) stood at 1,58,226 by the end of June 1987, involving an outstanding amount of Rs.1542.25 crores.

3.3 The health of our small scale sector is crucial not only to the country's economy but equally so from the point of view of employment generation. Sickness in the sector, besides contributing to unemployment, means waste of scarce and valuable resources and this the nation can ill afford. Not only is this increase in the incidence of sickness in the sector decelerating growth in production, in recent years, but it has aggravated the malaise considerably.

This cancerous spread has to be arrested forthwith, the cause of sickness diagnosed and treatment proceeded with immediately. The research worker has, therefore, offered the subject of his research as

"SICKNESS IN SMALL SCALE INDUSTRIAL UNITS IN PUNE CITY : A CRITICAL STUDY".
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