COMPARATIVE STUDY OF MANAGERIAL PROBLEMS OF SMALL-SCALE INDUSTRIES IN INDIA AND IRAN

ABSTRACT

THESIS SUBMITTED FOR THE DEGREE OF Doctor of Philosophy IN BUSINESS ADMINISTRATION

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UNDER THE SUPERVISION OF DR. NAIM-UL-HASAN PROF. AND CHAIRMAN DEPARTMENT OF BUSINESS ADMINISTRATION AND DEAN FACULTY OF COMMERCE

DEPARTMENT OF BUSINESS ADMINISTRATION ALIGARH MUSLIM UNIVERSITY ALIGARH (INDIA) 1988
AN ABSTRACT

The small independent enterprises in every nation have an inescapable role for a steady social and economic growth and for providing employment. The leaders of all countries, the international organisations, the organisations of small business and the intellectuals recognise the necessity to cultivate, recover, strengthen and increase the vitality of this sector as an integral part of growth strategies of each nation. Small enterprises in all nations—developed and developing, have a community of interests and problems, though the challenges in developing countries are far complex. The comparative study of these experiences would be relevant for evolving strategies in individual countries for recognising and strengthening the role of small enterprises in the national economic scheme.

The present work is entitled as "Comparative studies of managerial problems in small-scale industries in India and Iran."

Since there are enough similarities between India and Iran in the structure and aspiration of the two economies, Indian experience has much relevance for Iran's policy planning for the growth of small-scale industries. This work is a "Comparative study of managerial problems of small-scale industries in India and Iran, and constitutes the title of this thesis."
Although, there are definite advantages enjoyed by small-scale industries in the matters of production and organisation, there are also some problems and shortcomings which hamper faster growth of these industries. The present work aims to analyse these problems to explain their dimensions as well as to suggest solutions in the light of the study.

Small-scale industry in India includes all the industrial units which have investment, in plant and machinery, not exceeding Rs. 35 lakhs. For tiny industries the ceiling is Rs. 2 lakhs and for ancillary industries it goes upto Rs. 45 lakhs.

In Iran, the small-scale industries consists of those industrial units having investment in plant and machinery upto Rls. 7.5 million and are not engaged in the production of articles of artistic nature.

One of the vexing problems of the small-scale units is the actual availability of the scarce raw materials at standard prices, inspite of the allotments given by the government to this sector.

The other serious limitation of these industries is the availability of finance. Because of this, it is unable to finance its own projects. It also bars an easy access to banks for financial assistance.

Although there has been, lately, much improvement in the situation, but modernisation and upgrading of technology needs more attention. The quality standardisation of products is another problem that requires solution with a sense of urgency.
Due to the absence of well-developed organisation, small-scale industries face many problems while marketing their products, as the existing methods for marketing their products are inadequate.

Small-scale industries have to face a triangular competition in the internal market among large units, middlemen and intra-industry.

They are extremely dependent on distributors or merchant houses. Since the production of small units are tailored to suit individual or group taste, habits and uses, the market research assumes great importance. But very few small industrialists are doing or can afford to do market research.

The small-scale units, on their parts, will have to modernise their production facilities for facing the internal and external market with confidence, and for standing on their own to attain self-sustaining growth in the ultimate.

Typical problems in the small-scale industry arise because they often are tightly held and family-owned. Senior management positions are therefore, frequently reserved for family members. Added to this, a peculiarity of small industry is the failure on the part of the owner is to provide adequately for succession. In many situations the business thrusts upon the senior most person of the next generation irrespective of his ability, interest or competence to offer stability of policies and smooth succession.

The top management of small industry has a narrow outlook. It may not realise that it has problems of management organisation. Above all, it may totally fail to see the need for thinking and planning,
and may try to manage intuitively. The small entrepreneur is so engrossed in his daily routine, trying to expand his customer list, that not until he gets into acute difficulties he does not recognise that he needs additional 'management help' which by then would become too late.

Conclusion

Businesses are different, but business is much the same, regardless of size and structure, of products, technology and markets, of culture and managerial competence. There is a common business reality. The problems faced by small industries are peculiar in nature. They act as impediment to their growth and sometimes challenge the very existence of the business.

The management thinking in small industries has to undergo re-orientation. The narrow out-look of the owner restricting himself with only present problems rather than having a broader outlook of what the industry is going to be like in the changing environment, becomes one of the important causes among the many for ultimate failure of the unit. This type of thinking has to be changed. In such situations the small industrialist has no one to look up for advice. He is the sole decision maker in all areas of operation. He can not afford the services of the professional consultants. Therefore, the need for a proper set up, to advice the small industrialists, in different matters regarding production, technology, management, quality and so on, is strongly felt. The organisational set up to coordinate, disseminate and plan activities is a necessity. If small industries
are expected to produce goods and provide services economically, economies of scale by continuous technological upgradation have to be achieved. Therefore, no doubt, the small-scale units have to be provided with assistance, in their different problematic areas.
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DEPARTMENT OF BUSINESS ADMINISTRATION
ALIGARH MUSLIM UNIVERSITY
ALIGARH (INDIA)
1988
CERTIFICATE

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To the best of my knowledge, the work has not been submitted in this University or in any University for the award of any degree or diploma. In my opinion, the work is satisfactory and may be submitted for the award of the above degree.

I forward it for necessary action.

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SUPERVISOR
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INTRODUCTION

The need for accelerating industrialisation and improving productivity of work in developing countries has been well recognised. Their purpose is to overcome under-employment and to satisfy the basic needs of their people.

Purpose of development at the country's level is to eliminate poverty, ignorance and achieve a degree of self-reliance. Industrialisation which plays a critical role in developmental strategy, must be geared to serve these and other basic socio-economic objectives by producing needed goods and services. A developing country, quite often, adopts a strategy of disengagement from the development linkages of importer of finished goods and exporter of basic raw materials. The aspiration to shun this peripheral status leads to a policy of development of indigenous production capabilities.

There has even been a significant industrial development in some developing countries. Considerable import substitution has taken place, together with growing technological absorption by industrial enterprises, but the pattern and experience of such industrial growth often indicate that broader socio-economic objectives have been neglected. Industrial production based on manufacturing products and using technologies developed in industrially advanced countries has resulted in continuing dependence on foreign participation. Industrial policies directed towards import substitution have often resulted in high production costs and required protection by high tariffs and
import restriction. Industrial growth has also largely been concentrated in a few urban centres where the pressure of industrialisation have aggravated existing urban problems.

A developing country often needs an industrial policy and policies relating to labour and foreign investment, management and technology transfer in promoting industrialisation. Further, there is a need to prepare an industrial plan and to set up industrial promotion agencies. There is also need to create necessary infrastructure, industrial training, research and development institutions. This is followed by feasibility studies assisting the entrepreneurs in completing pre-project formalities and search for appropriate or suitable technologies.

The developing countries, however, are generally governed by several constraints, particularly in the matter of technology and trained manpower. One of the basic reasons for under-development has been the absence of a sound technological base in the developing countries.

There have been other constraints too, like under-developed entrepreneurship, inadequate capacity to identify projects, shortages of financial resources and small size of market.

In almost all the developing countries, there is a huge unemployment. The position of unemployment is worsening year by year, inspite of the scientific and technological growth. As a matter of fact, highly automated and large enterprises are responsible for the displacement of labour and is a cause of greater unemployment. With
the spread of education and awareness of rights and privileges amongst young people, the situation has now become highly dangerous. It is, therefore, very important that a global view is taken on the need to promote and develop small enterprises in the developing countries with cooperation and assistance of international agencies. The developing countries have to develop collective self-reliance as well.

There is no forum in the world, where demands are not voiced for greater technical and economic cooperation among developing countries themselves, for creation of better job opportunities, greater return on their natural and other resources and prevention of exploitation of their economies.

The need for bilateral and multi-lateral cooperation, which is speeding up the process of industrialisation in the developing countries, has been given due importance both at national and international levels. The cooperation is aimed at helping a developing country in overcoming its problems and constraints.

Some developing countries have made significant progress in industrialisation, adaptation and development of suitable technologies, operation of industry promotion services, training of skilled manpower and entrepreneurial development. They have also acquired a certain degree of engineering capability to design and produce machines and equipment. They are in a position to help other developing countries who have taken industrialisation at a later stage by sharing experiences in promoting industrial activities and entrepreneurship, providing technologies, know-how, and supplying necessary machines and equipment. Even financial tie-ups can be
established to the mutual advantage of countries cooperating with each other in these matters.

The growth of small-scale industries forms an important segment of the development plans of several developing countries. This is because they play a key role, particularly in the areas of basic need-oriented industries. It has been established that they, when compared to large industries, need a shorter gestation period and relatively smaller markets, to be economical. They have a comparatively higher labour-capital ratio and need relatively lower investment. In more than one ways, they constitute a key to the development of large industrial units.

There are, as such, definite arguments on favour of small-scale industries and this opens up vast opportunities for India in sharing its experiences with other developing countries in setting up small industrial projects.

India has a versatile, competent and comprehensive small-scale sector with almost a million small industries located in different parts of the country, which possess sound infrastructural support and availability of expertise at all levels. Being almost the next door neighbour with ancient ties and fed with the same foundation head of culture, Iran can be profitted from India's experiences, on building up her own economy particularly after the Islamic Revolution.

Indications to make a headway towards this has been given by the Government of Iran. Various levels of authorities in Iran have shown the desire to utilise the experiences of India in this regard.
Consequently, the work has started a few years back. Indian teams have visited Iran and so far suggested some suitable projects and profiles for development of small-scale industries in Iran.

Of course, there may be a number of countries capable of helping Iran for the same purpose. But, with the bilateral relationship between them and from the point of view of political and trade relationships and great similarities in the structure and aspiration of the two economies, Indian experience has much relevance for Iran's policy planning for the growth of small scale industries.

The self-sufficient India being a non-aligned country with almost enough experiences in this regard, lays the best, within the framework of Iran's Foreign Policy.

**The Study**

Considering the inherent advantages enjoyed by the small-scale industrial units in the matters of production and organisation, there are also some problems and shortcomings which make the growth of this sector slower. The problems may happen to be from the appraisal of a project up to the stage of after sales services. At any level, it is the manager who has to face the problems and ultimately he is the one who has to solve them, whether, it is personnel or business problems like marketing, finance and organisational problems.

In a small-scale industry due to its inherent property, the problems arising faced by any section have to be brought to the notice of the manager, who may happen to be the owner too. This study deals
with the problems, a manager in small-scale industry may face in his whole set up. These may be in production, finance, technology, marketing, organisation, and can be called as managerial problems.

Since, after all, organisation is a body with some characteristics which are common everywhere, whether in India or Iran. The problems which arise in any organisation are almost similar although they may not be in the same line of production. Therefore, it is felt that there is a considerable scope to utilise experiences of India in development of small-scale industries in Iran and utilise them in overcoming the problems which may arise at any stage of development of small-scale industries in Iran.

**Dominated Fields**

The small-scale sector has emerged as a major supplier of mass consumption items like leather and leather goods, plastic and rubber goods, ready-made garments, sheets, metal goods, stationary items, soap and detergents, domestic utensils, toothpaste and toothpowder, preserved fruits and vegetables, wooden and steel furniture, bootpolish, paints and varnishes, etc. Among the sophisticated items they may also be T.V. sets, electronic control system, radio transistors, hearing aids, intercom sets, flash guns, car radio, etc.

In Iran, small-scale industries do not specifically fall under any specified industry. They are normally in each and every branch of industries. But, they are mainly under textile, readymade garment and food preservation industry.
Objectives of the Study

Following are the main objectives of this study:

1. To assess the facts about the small-scale industries in India as well as Iran, either advantages or disadvantages.

2. To compare the mentioned managerial problems of small-scale industries in India and Iran.

3. To suggest steps which should be taken and also way of utilising Indian experience that can be helpful for development of small-scale industries in Iran.

Scope of the Study

The scope of the present study is limited to the small-scale industries in India and Iran. Small-scale industries in India, according to this study, means "undertakings having Rs. 35 lakhs in plant and machinery" and for Iran, "undertakings having Rls. 7.5 millions in plant and machinery and not engaged in artistic nature items". Although, there are enough similarities in this regard among developing countries, but it has been tried to be limited only to India and Iran.

Methodology

Most of the information has been collected directly from the various departments which are somehow connected with small-scale industrial sector. A large amount of information has been collected
from the office of Development Commissioner (small-scale industry), Nirman Bhawan, Ministry of Industry, and National Small Industries Corporation, State Trading Corporation, etc., Various statistical data has been gathered from Industrial Development Bank of India, Reserve Bank of India and different financial institutions in this regard.

In Iran, the situation is quite different, specially at present, therefore, collecting information is not easy. But the best attempt has been made to collect the information regarding small-scale industries from the organisation of small-scale industries and different reports published based upon the studies of United Nation Industrial Development Organisation (UNIDO) and various offices which are some how connected to the small industries.

Structure of the Work

The work has been divided into six chapters. In Chapter I and II a detailed discussion on the various aspects of small-scale industries in Iran and India has been presented. Discussion in these chapters include the concepts, origin, history, different definitions during various stages of economic development and their place in the national economy, development and growth of small-scale industries has also been discussed.

Chapter III deals with related issues regarding input to the small-scale industries. Different aspects of the subject like raw materials, financial problems, technology and human resources have been discussed. The measures taken by different responsible authorities is also given. It has been attempted to emphasise on the
amount of help which small-scale industrialists can get from the
government and government agencies for solving these problems.

- The output related issues fall under Chapter IV. In this chapter
the discussion goes to the extent of marketing in the domestic as well
as international market and the problems which the management faces in
marketing its products to the different markets. The steps which have
been taken by the concerned organisations to make this job easier for
small-scale industrialists have also been discussed.

Chapter V deals with over all management of the small-scale
industries. This comments on productivity, personnel and organisa-
tional problems of management in these type of industries.

Chapter VI summarises and concludes the recommendations emerging
from the study carried out.
1.1 INTRODUCTION

The basic growth objectives of developing countries are the optimal use of material and human resources, higher levels of income and employment, and significant improvement in the living condition and standards. Industrialisation, which plays a critical role in developmental strategy, must be geared to serve these and other basic socio-economic objectives by providing needed goods and services.

In developing countries like ours the role of small-scale industries in providing opportunities for labour and capital is a subject of considerable importance. In such countries, the place of small-scale industries is inseparable from the national struggle for independence in economic as well as politics. As these countries, try to change over from agriculture to industrialisation, they cannot afford an immediate transition to heavy and large-scale industries. Therefore, the best way is to begin with small-scale industries which have many advantages. It assists, further, in industrial development of the country.

1.2 GENERAL PERSPECTIVE

It is quite difficult to classify industrial units on the basis of size. However, there are various factors which should be taken into consideration to recognise industrial units by their size. The main factors are:
1. Availability of financial resources
2. Goods demanded
3. Profitability
4. Work force
5. Quality and quantity of goods produced
6. Share of market, and others

The advantage of this multi dimensional way of thinking is to avoid the confusion which results from taking only one of the factors into account and leaving the other characteristics unattended.¹

1.2.1 Problem of Definition

Definition of an industry is largely influenced by the stage of industrialisation of the country. And also the definition of small-scale industry usually depends upon the Socio-economic conditions of the country and programmes adopted. The form of small-scale industry found in the industrialised economies are different, however, from those in traditional economies. The industries which are considered small in highly developed countries might be considered medium or even large in a developing country. In the U.S.A., the number of workers alone is a criterion for defining small business, whereas in Japan both capital limit and the number of workers are taken into account.² The U.S.A. and Japan have not changed their criterion because of their

² Battacharyya, H.K., "changing Concept of Small-scale Industries in India," in Yojana, New Delhi, 16-30 April, 1982, p: 6
economic stability and industrial maturity which developing countries like ours have to change, the scope and capital limit every time during different stages according to the requirement of the small-scale industries.

There is no universally accepted definition of small-scale industries or related concepts. Statistically, administrative and analytical definitions have to be adjusted to the environment and the purpose in hand.

1.2.2 Status Abroad

In the contemporary world, the need for the independent business is seen more vividly than ever in the economic and social environments. The opportunity to supply required products or services for which there is a void in the market place, provides both the opportunity and challenge. Among the common people, there are those who, for a variety of reasons, need employment opportunities and entry into a business of their own. Independent business provides an opportunity for the technically displaced, the physically disabled, and those unhappy with their present work situation, with problems of relocation, and with higher aspiration levels.

1.2.2.1 Developed countries

Actually, more than 90 percent of all business enterprises in the developed economies are classified as small. These small businesses are found in all parts of the world and perform an important function in the economic system. Here, it is desirable to go through the experiences of some of these countries.
1.2.2.1.1 U.S.A.

In the U.S.A., the manufacturing firm is officially a small business for government procurement purposes, if it is not dominant in its field of operations and if it has fewer than 500 employees, or if it certified as small by the Small Business Administration. For the purpose of financial and other assistance, it is classified as small if it employes fewer than 250 employees. 3

1.2.2.1.2 U.K.

There is no demarcation between small and large industries. However, in books and treatises on industrial subjects, units employing less than 500 workers are generally referred to as small units; but this can be considered as a criterion of universal applicability.

1.2.2.1.3 Germany, F.R.

There is no official definition of a small industry. Units employing upto 300 workers are considered to be small. There is no clear cut definition of a small industry in Scandinavian countries. However, such units which employ 10 to 100 workers are taken to be small-scale units.

1.2.2.1.4 Japan

By small industries is meant those which are relatively small in the scale of management and capital investment, although the basis for classification varies according to the type of industry, and can not be generalized. The government applies the term to those industries which employ less than 300 persons in the manufacturing sector and have a capital of less than Yen 50 million ($133,000); and in the commercial and professional services sectors, possessing a capital of less than Yen 10 million ($26,000) employing less than 50 persons. The small enterprises include retail shops, shopping districts, etc. 4

1.2.2.2 Developing Economies

In many developing countries, human resources constitute a major resource which is relatively abundant. It is, therefore, imperative that their full and effective utilisation should become a focal point of socio-economic policies. The emphasis in these developing countries is on labour-intensive technology to absorb the surplus manpower through all the channels of economic development. That is why in many developing countries in Asia, Africa and Latin America, small industry development is being pushed forward rapidly.

The word 'Small industry' covers a wide range of activities. Each country has laid emphasis on the development of small-scale industries as an effective tool for social transformation. The definitions of small-scale industries in some of these countries are as discussed in the following paragraphs.

1.2.2.2.1 South Korea

The term small and medium industry is defined in the Small and Medium Industry Cooperation Act as any unit:

(i) In manufacturing with more than 5 and less than 200 employees or with total assets of less than 50 million Won;

(ii) In mining with more than 5 and less than 50 million Won.\(^5\)

\(^{275} \text{Won} = \$1\)

1.2.2.2 Taiwan

In the manufacturing and processing sector (including handicrafts), any business employing less than 100 persons or with total assets worth $5 million is a small industry.\(^6\)

1.2.2.3 U.A.R. (Egypt)

The United Nation Report (1958) on the development of the manufacturing industry in Egypt refers to all manufacturing establishments employing less than 10 persons, as small-scale industries.


\(^6\) Ibid.
1.2.2.4 Turkey

All industries employing less than 10 workers and having a connected load of less than 10 H.P. are considered as small in Turkey.  

1.2.2.3 Role in the National Economies

Small-scale industry sector represents a prominent sector of national economy. This sector provides the necessary infrastructure for industrial development and consolidates the base of the economy. Small-scale industries provide greater employment opportunities and consequently raise the national income of the country. This sector can serve as an effective weapon in the hands of planners for their industrialisation programmes and bring about a regional balance through development of backward regions. The role of small-scale industries in the economy can be found in many areas. These roles may be of different priorities in different economies. Therefore, different governments are setting different programmes for their small-scale industries according to the needs of their economies. To support this few examples are given as below:

1.2.2.3.1 U.S.A.

In the U.S.A., there is an independent agency called Small Business Administration (SBA) of the executive branch of the United States Government. This agency aids and advises nation's enterprises that are classified as small business. Small business in the USA

covers manufacturing, commerce, food and fibre, ranching and raising of livestock, all other farming and agricultural related industries.

SBA (Small Business Administration) provides assistance in a number of ways:
- It lends money directly or collaborate with banks to finance, in construction or expansion, to purchase equipment or material or to supply working capital,
- Grants, loans to businesses that have suffered a loss in a national disaster or civil disorder,
- Issues licences, regulates and offers financial aids to small business investment companies which in turn provide capital to small business,
- Assists small businesses to obtain government contracts,
- Secures management, technical and production guidance for small firms.

To show the importance of small-scale industries in the economy it is enough to indicate that
1- More than 90 percent of all firms in the U.S.A. fall under small business.
2- Small firms are producing four times as many innovations per R & D dollar as medium size firms and 24 times as many as largest firms.

1.2.2.3.2 Japan

There is an exclusive agency viz, small and medium enterprises in Japan for promotion of medium and small enterprises. The fundamental law on small and medium enterprise is designed to emphasise the importance of small and medium enterprises, to help them to grow and raise the economic and social status of those engaged in them.

A programme has been put into effect to modernise and structurally strengthen those small and medium enterprises suffering from structural recession. To cope with this problem, the government encourages entrepreneurs to participate in joint business undertaking by forming cooperative associations to run common factories, shops and other facilities. It also provides consultations, guidance and personnel training in both management and technology. Small and medium enterprises are given financial assistance from government affiliated institutions and rely on the government's credit guarantee system. They are also encouraged to expand equity through favourable tax measures and government sponsored small business companies.

Small firms have facilities for procuring orders from government and other public sector agencies. Policy measures have been devised which aim at removing handicaps of small and medium enterprises.

The position of small and medium enterprises in Japan can be summed up as follows:

1- Small and medium enterprises in Japan accounts for 99 percent of all enterprises in the country.
2- 80 percent of the total number of employees.
3- The total shipment and sales of the products of small business accounts for half of the national total in value.  

1.2.2.3.3 South Korea

Government promotes development of small business in the following ways:

- Modernisation aiming at nationalisation of production, management, research and development of new products.
- Improvement of products quality and working environment.
- Extension services for training, transfer of technological information, services of experts, etc.
- Reservation of spheres of small business, and
- Supply of adequate and timely credit.

Following facts show the role and position of small-scale industries in the country:

1 - Small business in Korea accounts for 96.6 percent of the total number of enterprises.

2 - 50.7 percent of total employment, and

3 - 68.2 percent of total industrial output.  

9 WASME, Position of Small-scale Industries in Different Countries of the World, Athens, 1983, P: 3

10- Ibid, P: 4
1.2.2.3.4 Turkey

In Turkey, small and medium enterprises constitute the most essential component of the economy, due to their share in total production and employment and to some extent for their export possibilities.

Small and medium enterprises which are established all over the country have the capability of preventing, or at least slowing down the migration from the rural areas to urban areas.

The enterprises need to get technical and economical support in order to improve their production, working conditions, social structure, security and finally for their financial and marketing bottle necks. In state development and investment plans these enterprises are planned to function as sub-enterprises for large industries in the short-run, but they are mainly aimed at improvement to large scale enterprises in the long-term.
Table 1.1: Small Industries in Different Countries.

<table>
<thead>
<tr>
<th>Countries</th>
<th>No. of employees</th>
<th>No. of firms</th>
<th>%</th>
<th>Other factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developed:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. U.S.A.</td>
<td>Less than 500</td>
<td>90</td>
<td>Yen 50 million capital</td>
<td></td>
</tr>
<tr>
<td>2. U.K.</td>
<td>Less than 500</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>3. Germany (F.R.)</td>
<td>Less than 300</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>4. Japan</td>
<td>Less than 300</td>
<td>99</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Developing</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. South Korea</td>
<td>Less than 200</td>
<td>96.6</td>
<td>won 50 million capital</td>
<td></td>
</tr>
<tr>
<td>2. Taiwan</td>
<td>Less than 100</td>
<td>-</td>
<td>$ 5 million capital</td>
<td></td>
</tr>
<tr>
<td>3. U.A.R(Egypt)</td>
<td>Less than 10</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>4. Turkey</td>
<td>Less than 10</td>
<td>-</td>
<td>Connected load of less than 10 H.P.</td>
<td></td>
</tr>
</tbody>
</table>

1.3 Ancillary Industries

Almost every industrial enterprise was once a small unit. However, they grew in size over the years.

It will be socially preferable if the expansion of industry is attained by the coordinated growth of small-scale and large-scale industry. This philosophy is at the heart of the concept of ancillary relationship, which is essentially the forward linkage of small firms.
(Ancillary units) typically with a large firm (master unit). If ancillary relationships were sustained during the growth of large-industry, this would ensure simultaneous growth and modernisation of small industry.

The adoption of a strategy of extending judicious and effective encouragement to small-scale industry especially ancillary units would enable the fruits and benefits of industrialisation to filter down to a significant portion of the population.

Ancillaries for the supply of parts, components, sub-assemblies, toolings, intermediaries and various services to large plants can prove to be useful because of their ability to economise by savings on overhead and securing greater efficiency by virtue of their compactness, better coordination and concentration on the production aspects of business.

Thus the ancillary relationship is beneficial to small-scale industries as well as large-scale firms. But ancillary relationship is conceivably associated with both advantages and disadvantages for ancillary unit also.

1.3.1 Advantages

The advantages for ancillary unit are as follows:

1. Ancillary units, due to sales to master units, are less exposed to marketing problems than other small-scale units.
2. The master unit supplies some critical inputs required by the ancillary units to ensure uninterrupted operations.

3. The ancillary unit may also have the benefit of being in the same-location as that of master unit, therefore, it reduces transportation costs and facilitates transfer of technology from the master unit.

But ancillary relationship provides some extra advantages as a whole than those to the ancillary unit itself, which can be discussed as:

1.3.1.1 Redistribution of Income

One of the most important role of small-scale industry is the role of providing wider distribution of income and wealth in the country. As it is quite obvious, in developing countries with large number of population, and most of them are staying in villages and rural areas, the pattern of distribution of income is not satisfactory.

Apart from the economic justification that small-scale industries are suitable for creating them, such industries are a social necessity of an under-developed or developing economies. The growth of large-scale industries in an unplanned manner creates many problems such as creation of monopolies leading to concentration of wealth in a few hands, displacement of labour and so on.
1.3.1.2 Removal of Disparities

Small-scale industries, because of their smaller layout can be started more easily at smaller places and are therefore, able to reduce disparities in development between regions.

Disparities regarding the concentration of industries in few special areas are one of the problems which can be reduced by encouraging establishment of small units. During last two decades, there has been a lot of awakening on the part of less developed regions to grow and develop for increasing income and employment of their people in the developing countries.

It is much easier to decentralise small industries as compared to large-scale industries. Promotion of decentralisation depends upon the different kinds of incentives which the small entrepreneurs obtain by investing in small towns and backward areas. Of course, if the incentives are more attractive for entrepreneurs for establishing their industries in less developed areas, they will be more drawn to it.

On the other side, the small-scale industries have small lay-out and they can be more easily started because the gestation period is also less than large-scale industries, they normally produce goods in less time and work starts sooner on these industries as compared to large-scale firms.

In an industrial society which is based on small-scale industries, creation of monopolies is a rare phenomenon. Displacement of labour, creation of big and congested cities and from the other
side backward areas and undeveloped towns due to the labour-intensive nature of small industries are out of question. Therefore, small-scale industries can be a powerful means for removing the disparities in the developing countries.

1.3.1.3 Helping Hand to Large-Scale Industries at Higher Economic Rate

A view has now emerged that the setting up of rural industries in a big way alone can generate adequate employment opportunities. At times it becomes evident that rural and cottage industries cannot grow unless the growth of organised sector is restricted. At this stage, the question arises whether these sectors have to grow only at the expenses of each other? Or could the growth of these sectors not be complementary to each other?

In the emerging industrial structure, there is a need for proper integration of different sectors of the industry, viz., large, medium and small, instead of being hostile to each other. The basic guidelines should be promotion of integration of these industries and their functioning in a harmonious manner.

In fact, in the industrial structure of a country, all sizes of industrial units, large, medium and small are found. The appropriate size of the firm may differ in different industries. But depending on the availability of various kinds of inputs and managerial talents, the firm would try to attain efficiency at levels of operations.

Choice between small and large-scale industries may be advocated for their efficiency in saving overhead costs. In contrast, the small firm which specialises in some items and sells them to a large number
of firms, may achieve economies of scale in their narrow field due to the large-scale operation than large firm which has undertaken it.

The other potential field where the small-scale industries can play a vital role is, the agro-based industries which can be integrated with agricultural sector and small-scale sector. Because the extent of utilisation of plant in some of the agro-based industries is bound to be low and so an attempt at large-scale is bound to be a failure.

Regarding the matter of sub-contracting, the cost per unit of large-firms is lower, compared to the other large units. This is because the small units produce and supply the items at lower price which could not otherwise be possible for large firms. The large firms are able to save capital which would otherwise be blocked in addition to plant needed for the production of the items which are now supplied by the small firms.

The observation of Mr. Sivaraman in this regard is:

"Capital investment required for large plants to produce a repetitive small items can be many times more than that required for the small industrial unit in the rural sector."

Hereby, it can be concluded that with the help of small industries, the amount which the large industries can save through

12. Shivaraman, B., Case for Active Ancillary Industrial Programme, Small-scale Industries in India, Development commissioner (SSI), New Delhi, 1971, P: 47
sub-contracting and consuming the items from small-scale sector can be utilised for the expansion of their output. Through diversification of large units, their requirements from small units will also increase, and therefore, the production of small units will increase. Due to increased production of small units, the inputs for small units have to be pushed up and with this the objectives of encouraging small units will be fulfilled.

1.3.1.4 Develops Entrepreneurship

Small-scale industries help to train the rural classes in backward areas and raise a new class of entrepreneurship.

Small-scale sector can mobilise local resources and traditional skills, and serve as an effective weapon in the hands of planners for development of backward areas.

Small-scale industries which utilise the local resources and skills, can have more advantages over other sectors. They can have their own markets in the same locality and by itself save their expenses from transportation.

Thus, these industries are essential in providing subsidiary or alternative occupations and utilises local raw materials or cater to local markets. Many small-scale industries are urban and are owned and run by small proprietors who are familiar with the techniques of production and have limited resources of their own. They contribute an important source of employment to the urban unemployed class.
Development of small-scale industries has, therefore, to be considered not merely from the point of view of providing employment but also in building local industries capable of expansion or diversification of production and domestic market.

1.3.2 Disadvantages

The disadvantages of being ancillary unit are given below:

1. The fluctuation in demand of products for master unit will affect the demand for ancillary unit products.

2. The master unit normally tends to dictate prices and payment terms to the ancillary unit.

3. The diversification of the ancillary unit are probably restricted when special-purposed machinery and equipment have been installed.

1.4 Iran's Experience

Governments have begun to recognise the need for significant re-orientation of industrial strategy, in order to make better use of national resources and also to satisfy the basic socio-economic needs.

The close relationship between industrialisation and technological development, requires industrial strategy re-orientation to be effectively coordinated with technological development along with increased technological self-reliance. The development, adoption and application of industrial technologies consistent with
realisation of broader socio-economic objectives should constitute an essential element of a reoriented industrial strategy.

The growth pattern in large developing countries, with adequate natural resources and sizeable internal markets, may include basic industries as steel, fertilizers and chemicals. There may be potential for certain heavy industries in smaller countries too, but greater emphasis should be given to medium and small-scale light industrial production where investment capital is limited and economy is in an initial stage of industrial growth.

Since Iran is also a developing country, there is no exception for her regarding these facts. Actually in Iran not much of work has been done as compared to India, for development of small-scale industries before and even after the Revolution. Before the Revolution there were different kinds of problems from the ones which the small-scale industries are facing after the Revolution.

1.4.1 Evolution of the Concept

Before 1964, there was nothing known as small-scale sector in Iran. There was no separate policy laid down for the development of small-scale industries in the country. Although the government had recognised the need for rapid industrial development for balanced growth of the economy. The existing industries were either large-scale technology imported from West or handicrafts transferred through the generations, such as carpet, weaving, lock & key, carpentry etc. The

13. Small-scale Industries in fifth Plan, Persian Copy, Government of Iran, 1972, P: 12
other sector which was neither of the two but somehow bridging the gap between these two sectors was a set of workshops required for serving and modifying the imported machineries. Therefore, a sector which could be called as small-scale industry based on the world understanding either was not existing or was not recognised by the concerned authorities.

During May-June 1962, on the Government of Iran's request to United Nations Industrial Development Organisation (UNIDO), an expert had visited Iran to assist the government in formulating design, construction and initial operation of a pilot industrial estate. Again during July-August 1963, the United Nations sent a team of two experts to assist the government in selecting a site for the industrial estate, and to prepare the estimates of cost. Government accepted the recommendations of the team for the model demonstration estate project at Ahwaz (in Khuzistan province) and decided to go ahead with the construction of the estate on the lines drawn by these experts.

1.4.1.1 Government Policy

The Third Five Year Development Plan of Iran which Commenced in 1962 had assigned special priority to programmes of rapid industrialisation and balanced regional development. The main strategy adopted by the government was to steer industrial development to selected poles through a series of regulatory and promotion measures.

Even though the emphasis, in the Third Plan, was mainly on the promotion of large industries, government had also decided to initiate, certain programmes for small industry development and industrial estates.

Small-scale industry for the first time, has been defined by Organisation for Small-Scale Industries and Industrial Estate of Iran.

1.4.1.2 Definition of Small-Scale Industries

The first definition of small-scale industries is:

"an undertaking having
1. Investment in fixed assets up to 5 million Rials ($ 1=70 Rls.),
2. Blocking not more than 25 percent of investment in land and building,
3. Employing 50 persons per shift,
4. Possessing no modern management,
5. Not producing goods of an artistic nature and
6. Having 100 percent Iranian ownership and management."

Due to steep increase in prices of capital equipment and replacement cost, it was felt by the Organisation of Small-Scale Industries and Industrial Estates of Iran to review the definition of small-scale industries. Therefore, in 1968, the small-scale industries have been defined as:

"The undertakings which have investment not exceeding Rls.7.5 million in plant and machinery and are not engaged in manufacture of goods of an artistic nature."

15. Organisation of Small-scale Industries of Iran, Reports on Small-scale Industries in Iran, Persion, copy, P: 2.
16. Government of Iran, Small Industries in Fifth Plan, (persion copy), 1972, P: 1
And up to now the definition of small-scale industries has not changed.

1.4.2 Development of Small-Scale Industries in Iran

The Government of Iran is determined to develop the structure of the country in such a way where it is not vulnerable to agricultural economy but, somehow is capable of meeting the bulk of its demand by domestic suppliers and earning foreign exchange. It wants to be less dependent on the hitherto main export product: oil. A number of large production units of medium and big industries had already been established a long time ago. However, a modern manufacturing economy is not complete and is not as efficient as it should be unless it has both large and small production ones. Large plants should not build subsidiary operation in their own production. The result may be a high fixed cost and lower economic efficiency. At this stage contracting out for purchase of supplies and services in the open market is more advisable.

Efficient small industry sector can enhance the efficiency of large factories by relieving them of the burden of making certain parts and performing certain operations which the smaller outside units can carry out at lower cost. Promoting various kinds of complementarity between large and small industries is an important aspect of industrial development as a whole.

In general relations between small and large industries in developing countries often start to be competitive, an equilibrium which in the course of the country, shifts more and more to a state of
cooperations and complimentarity between the different sized factoruies. Comparing this experience with the conditions in Iran, it can be stated that the phase of competitive equilibrium as mentioned above is not expected in the country in the near future owing to a non-interference of the products involved.

As the small-scale industries in the country have still to be developed, and it is opportune time now to recommend utmost attention combined with the proper measures for a development of these Small industries into units cooperative and complementary to the large plants. Most of the large industries are government owned or have a large investment capital by the government. This fact gives the government an additional opportunity to promote and to materialize through the management of the large units the establishment of the complementary small industries.

1.4.2.1 Five Year Plans

As it has been discussed earlier, it was only during the Third Five Year Plan which commenced in 1962, that the small-scale industries were recognised for the first time. During the same time, 'Industrial Estate Authority' was established and given the responsibility for development of small-scale industries in the country.

During Fourth Five Year Plan the Industrial Estate Authority replaced by Organisation for Small-scale Industries, and Industrial Estate of Iran with a wider responsibilities and power for better development of small-scale industries. During this period the
organisation had to complete the activities of Industrial Estate Authority and also start planning and coordinating its own programme for development of small-scale industries. It is not known how successful the programming for development of small-scale industries had been.

The country's Fifth Five Year Plan which came into operation during March 1973, was formulated for a massive programme of small industry development and had been approved for inclusion in the Plan. The magnitude of the scale of the small industry development programme proposed for the Fifth Plan can be gauged from the fact that the financial provision proposed in Rls. 11.5 billion as against Rls. 550 million in the Fourth Plan.\(^\text{17}\) ($1 = Rls 70)

The development programme for the Fifth Plan for small industries had a two fold aim, namely promotion of new small industries in selected centres with growth potential and modernisation of existing small industries.

In the promotion of new industries, priority had to be given to industries which had linkage with large industries and potential for employment and had import substitution. A target of 1,500 new industries had been proposed for the Fifth Plan. Modernisation programmes were to cover all aspects of production and management. They involved introduction of new machinery, equipment, tools, rationalisation and expansion of production programmes as found necessary. Improvement in factory accommodation, plant layout, use of

raw materials and marketing arrangements etc. A target of 10,000 industries had been set for the modernisation programme during the Fifth Plan period.

Unfortunately there is no statistics regarding the performance of small-scale industries in the past. There is no data regarding the contribution of small-scale industries to the economy of the country. This is really a sad part of this discussion. Therefore, it is not possible to compare the position of India and Iran in this stage.

Actually the Organisation for Small-scale Industries and Industrial Estate of Iran had started collecting statistics on small industries and was also planning to introduce a system of registration for small-scale industries. Reliable statistical information on small industries is now practically non-existent and therefore, data has to be built up from the beginning. Therefore, it may take quite a few years to establish such an organisation which can collect the statistics for Small industries.

1.4.2.2 Formulation of Policies

As regards the formulation of policies for small industries development, it can be said that a broad strategy and policy frames conductive to the proper growth of small industries has now emerged in the country. The rationalisation and revision of the definition for small-scale industries, the issue of the policy statement defining the aims of small industry development and recognising the needs for special programmes of assistance for small industries, the emphasis given on development of small industries in linkages with large
industries, the importance assigned to modernisation of existing industries; promotion of new industries with potential for employment and import substitution, have placed the small industry development programme on a very sound basis.

The programme of modernisation will involve in many cases factory visits by joint teams of engineers, economists, management specialists etc. The enormous work involved in this type of factory visit and follow up action can be carried out efficiently only with a staff of adequate strength possessing a wide range of specialisation.

1.4.3 **Protective measures for Small Industries**

**Development:**

The ultimate aim of the development programme for small-scale industries is to promote the growth of an efficient and healthy middle sector of modern small industries which can exist in a complementary relationship with the large industries on one side and traditional crafts on the other. However, in view of the various handicaps and weaknesses suffered by small industries for a long time, it is necessary to provide some measure of protection and support to enable them to overcome their difficulties and to acquire sufficient competitive strength of their own. One such important measure is that, items which are ideally suited for production on small-scale basis should be reserved exclusively for this sector. In the absence of such a policy of reservation, there is always the danger of a large number of small industries being swept aside by one or two large industries.
in the same line. In view of the important socio-economic objectives, sought to be served through the development of small-scale industries, government should be fully justified in taking such an action.

Introduction of common production programmes or allocation of capacities for both small and large-sector for specific industries is another step which government should take in order to ensure a good future of small industries in the country. Small industries can coexist with large industries in many fields, but there has to be a clear demarcation of production capacities in these items for the two sectors so that unplanned expansion of capacity in one sector does not adversely affect the interests of the other.

1.4.4 Organisational Structure

1.4.4.1 Industrial Estate Authority

The need for a special organisation to give administration and policy support to the programmes of industrial estates had become obvious and in August 1964, the government established a semi-autonomous organisation called the Industrial Estate Authority within the Plan Organisation for this purpose. Meanwhile, the government's request for special fund assistance for estate project had been approved by the Governing Council. The negotiation on the plan of operation took nearly two years, and it was finally approved only in May 1965.

18. Organisation of Small-scale Industries of Iran, Reports on Small-scale Industries in Iran, Persian copy, P: 1.
Industrial Estate Authority had a rather limited objective of establishing and operating a demonstration estate and planning for the establishment of estates in other parts of the country.

1.4.4.2 **Organisation for Small-scale Industries and Industrial Estates of Iran**

The implementation of the industrial estate scheme soon revealed the handicaps and shortcomings inherent in the project as designed by then. As a result of developing programmes introduced in Third Plan period, a large number of new large industries had come up, both in public and private sectors and were being established in different growth centres in the country. The country already had a well established traditional sector represented by its carpets, handicrafts etc. What lacked was a programme for the development of a healthy middle sector of modern small-scale industries and an organisation for the promotion of such industries. Industrial estate, unsupported by adequate policy measures and assistance programmes for small industries development. These were too weak a tool for promotion of small industries and this weakness has clearly manifested in the slow progress of the demonstration project at Ahwaz. Therefore, in 1966, government decided to set up a new organisation called the Organisation for Small-scale Industries and Industrial Estate of Iran, replacing the Industrial Estate Authority with greater power and responsibilities for small industries development including establishment of industrial estate.


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1.4.4.3 **Organisation of Small-scale Industries of Iran**

In 1977 the 'Organisation of Small-scale Industries of Iran' established and assigned it to coordinate all the activities regarding small-scale industries. According to the Organisation of Small-scale Industries of Iran the criterion for being small is on the basis of production capacity in seven lines of production. Therefore, the organisation activities were limited to these number of lines only. The list of these seven lines of production according to the rule could be changed on the basis of necessity of time by council of Organisation for small-scale industries of Iran.

1.4.5 **Present Position**

The discussion carried so far was the condition of small-scale industries in Iran's Pre-Revolution period. The industrial activities were stopped or slowed down during the Revolution transition period (After 1979.). Later on after a slight settlement the Revolutionary government intended to have their major steps in uplifting the industrial activities which had been suffered during the period in a big way. But, this programme also had to suffer due to the imposition of the war to the country. Along with the prolonged war affected development of industries in general and small-scale industry in special and development moved naturally with a slower speed.

In Pre-Revolution time, Ministry of industry had entrusted duties regarding small-scale industries to Organisation of Small-scale Industries, which has been discussed earlier. The offices of Ministry in the different provinces were also doing the same job. Therefore,
the job which was supposed to be tackled by Organisation of Small-scale Industries used to be done by other departments of the same Ministry in different provinces. The dual authority used to create more problems for small industries. In 1983, the organisation joined the respective department in the Ministry and the responsibility of development of small-scale industries have reverted to the offices of the Ministry of Industry in the provinces. And Ministry itself functions as central organisation for development of small industries.

And even in the recent years some other organisations such as Construction Crusad have showed enough interest in planning and coordinating of Small-scale industries in the country, specially in towns and backward areas. Even they have started collecting the experiences of different countries, specially India to get the clear idea for planning and implementing the programmes of development of small-scale industries.

Small-scale industries sector should represent a prominent sector of national economy. This sector provides the necessary infrastructure for industrial development and consolidates the base of the economy.

Like any other developing country, small-scale industries sector provides greater employment opportunities and consequently raise the national income of the country. Many products from this sector are successfully meeting the demands of the consumers in different parts


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of the country and helping the nation in its drive to earn its self-sufficiency and save the scarce foreign exchange.

In recent years the important role of small-scale industries in changing the total structure of the economy, has been emphasised greatly. Expansion programme of the government in this sector can help the country to overcome most of the problems relating to the unemployment and shortage of essential commodities which have risen due to the Revolution and a prolonged war. Since one of the advantages of small-scale industries is their short gestation period, therefore, this sector could be quite helpful in the present position of Iran. Small-scale industries possess such important properties that no country at any stage of economic growth can ignore them.

1.5 Conclusion

No country has really advanced industrially in the absence of a balanced development of all its industrial sectors. Many developing countries are following the example of the industrialised ones, and are developing the position of the industrial sector, specially the small-industries. Unfortunately Iran is not in the position as it should be. Without help, without advice, the small industries have not been able (or very little) to develop.

The present definition of small-scale industries with a ceiling on cost of machinery and equipment at Rls.7.5 million had been introduced by the then government in 1970. This definition has proved to be very realistic and at the same time simple in its application at that period of time. Now it is almost 18 year from the time which this
definition proved to be realistic and applicable, whether, during this period of time the prices of machinery and equipments have not changed? Definitely the prices increased and they have gone up. Therefore, Rls. 7.5 million as a ceiling for small-scale industries may be illogical. The need for reviewing the extension of the ceiling on cost of machinery in the definition of small industries will be a logical and welcome step.

One of the factors which weigh in favour of small industry are its adoptability to semi-urban and rural environment where infrastructure is under-developed and its capacity to attract small savings and divert them to productive channels. This role may have a great importance for Iran's economy. At present Iran's authorities are facing a lot of problems regarding migration of workers from rural and semi-urban areas to the big cities. Therefore, with proper planning for small-scale industries in these areas, the migration of workers will at least be slowed down.

So, a comprehensive programme to develop the small industries is essential for Iran. But to achieve this aim, the country must have a clear policy and do what other countries have done to create a modern, dynamic small industry. This can never take place until and unless important and efficient steps are taken.
CHAPTER II: DEVELOPMENT AND GROWTH OF SMALL-SCALE INDUSTRIES IN INDIA

In the previous chapter, the role of small-scale industries, in the economy of Iran was explained. The present chapter views the development and growth of small-scale industries in India.

The growth of small-scale industries forms an important segment of the development plans of several developing countries. This is because they play a key role, particularly in the areas of basic need-oriented industries. It has been established that these industries, as compared to large-scale industries, need a shorter gestation period and relatively smaller markets. The small-scale industry has a remarkable adaptability to semi-urban and rural environment where infrastructure is under-developed.

The development of small-scale industries in India presents a fascinating picture in the context of planned industrial development. The small scale industries have availed of all possible opportunities of specialisation in many important fields. These industries are in the process of assisting the economy to achieve a take off by generating on output and employment and by mobilisation of resources as well as by capital formation.

The small-scale industries have provided special dimensions to the programme of industrialisation by reducing regional imbalances, creating employment for unemployed persons and distributing income and economic power more equitably. Not only this, the development of small industrial unit has also facilitated effective mobilisation of
resources, capital and skill which would otherwise have remained unutilised.

Small-scale industry in India has been assigned an important place in the industrial policy resolutions and in successive five year plans. The government has introduced comprehensive programme for the development of small-scale industry and have set up several assistance agencies for providing finance, credit, guidance on production management, facilities for training, assistance in marketing and built-up accommodation. In view of the availability of these facilities, small-scale industries are placed in a favourable position to attain maximum production efficiency and to effect economies on the cost of production.

During the six year period of 1974–80, the value of production registered a growth rate of 6.8 percent per annum. The gross value added at factor cost rose from around Rs. 2800 crores in 1973–74 to Rs.4100 crores in 1979–80 (at 1970–71 prices) registering a growth rate of 6.6 percent.1

The contribution made by manufacturing sector in the year 1979–80, was around 49 percent in terms of gross value of output and 51 percent in terms of value added. As regards employment, this sector has offered employment opportunity to about 23.58 million persons (both part-time and full-time) as against around 4.5 million persons estimated to be engaged in.

1. Government of India, Sixth Five Year Plan, Para: 12.3

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2.1 History of Small-Scale Industries

The history of small industry movement in India could be traced back to the days of "Swadeshi" movement, when India started doing things herself and the urge was experienced to develop the industries and skills of India's past. Independent India felt the need for modern small-scale industries and vested this sector with great national significance in the scheme of industrialisation.

2.1.1 Origin of Small-Scale Industries

It is very difficult to trace the origin of the small-scale industries in India. It is said that in olden days long-before Industrial Revolution in the West, India was considered as the industrial workshop of the world. In fact, India was the main supplier of textiles, calicls, muslins and metalware to the world market. However, the history of origin of modern industries in India can be traced to 1854 when cotton textile industry made its commencement in Bombay.

By the end of nineteenth century, the industrial pattern in India was largely based on urban handicrafts, cotton and jute textiles, coal mining, railways and allied industries, foundries, metallurgical plants, and ordinance factories.


2.1.2 Pre-Independence Development

No significant development of industries has been found in India before the First World War. Cotton textile, jute and coal mining were the main organised industries in India before the First World War. Indian industries suffered a setback because of the stepmotherly treatment rendered by the Britishers during their rule.

The industrial structure of India in olden times mainly consisted of village industries and as a result of British policy towards Indian industries, "By 1880 the decline in handicrafts was nearly complete and the mass of craftsmen had no new industrial means of livelihood".  

When the First World War broke out in 1914 there was an acute shortage of consumption goods. Supplies from various parts of the world were stopped due to the fear of sea risks. Thus a strong need for a sound industrial base in India was felt. Consequently an industrial commission with Sir Thomas Holand, as its chairman, was appointed to go into the problems of industrialisation.

The commission submitted its report in 1919 and made some specific recommendations. But its recommendations could not be implemented because of financial stringencies and other political considerations.

After the end of the war in 1918 the industrial situation of the country was reviewed by the then British Government. It was realised that India was left far behind the other industrially advanced

countries of the world. This lead to the appointment of First Fiscal Commission in 1921. Sir Ibrahim Rahmatoola, the chairman of the commission, in his report favoured a policy of discriminating protection for the growth and development of Indian industries. In pursuance of the recommendation of the First Fiscal Commission, a Tarif Board was constituted. 6

Thus, after the end of the First World War new conditions favourable to the development of industries were created and for the protection of the indigenous industries, the government adopted a liberal policy called the policy of discriminating protection. As a result, there was great expansion of existing industries, specially the small-scale and cottage industries and emergence of several new industries (such as steel, sugar, cement, glass, industrial chemicals, soap, vanaspati, and some branches of engineering industries etc.).

But soon after the Second World War the official patronage disappeared and the industries born during the war period gradually began to decline. The government did not help them to the required extent. The industrial position of the country again deteriorated. At the time of the Independence of the country practically speaking there were very few organised small-scale and cottage industries.

The reasons for lack of expansion of industrial activity and decline in output lay in the uncertain political situation. The firms were faced with the problem of readjustment in operations caused by the separation of the sub-continent. This period of decline ended

with the export boom created by the Korean War. By 1951, industry was relatively stabilised at levels of capacity and output which were above pre-war levels, but below war time peaks in absolute terms. Per capita income rose from Rs. 52.2 in 1900 to Rs. 62.2 in 1947. The rate of economic growth that was achieved in India since 1950-51 was 2 to 3 times higher than the rate recorded earlier under British administration.7

2.1.3 Post-Independence Development

There was no marked difference between small-scale industries and village industries and traditional arts and crafts during the British rule in India.

Small-scale industries have been assigned a distinct role in the development planning in the country as the Asian Regional Conference of the International Labour Organisation held in New Delhi (India) in 1947, adopted a special resolution on the subject. This resolution suggested, the desirability of industrial production on the basis of small domestic and handicraft industries and emphasised the need for organising them on "cooperative and federated lines ..."8.

After the Independence of the country in 1947, the first step taken by national government was to convene an Industrial Conference in December, 1947, in order to revive and develop the cottage and small-scale industries. The conference recognised the importance of


cottage and small-scale industries in the national economy, and their problems have been identified and recommendations have been made to overcome these problems. 9

The recommendations of the Industrial Conference marked the beginning of a positive policy for the development of industries in the country.

The main recommendations of the conference can be summarised as under:

1. Establishment of a permanent All India Cottage Industries Board in addition to the All India Handloom Board
2. Establishment of separate Directorate of Cottage Industries under the Ministry of Industry and Supply.
3. Subventions by the Central Government to the All India Cottage Industries Board and also to the All India Handloom Board.
4. Separate provision in the distribution of raw materials in short supply and priority assistance for cottage industries.
5. The special interests of cottage industries should be borne in mind by the Tariff Board while framing its recommendations regarding industries referred to it.
6. Provincial governments should establish separate departments of cottage industries.

9. Development Commissioner (Small-Scale Industry), 25 years of progress (SSI), New Delhi, pp. 4-5.
7. Yarn to handloom industry to be the first charge on the spinning mills.

8. Central Government's Trade Commissioners should pay special attention to the marketing of cottage industries products.


10. So far as basic needs regarding food and clothing especially for rural areas are concerned, we should attain self-sufficiency primarily through the development of cottage industries.

11. Railway freight rates to be adjusted to give preference to the products of cottage industries.

12. Expediting the Leather Research Institute in Madras with a special section for cottage industries in all National Research Institutes.

13. Special missions to Europe and Japan in the interests of cottage industries.¹⁰

It was for the first time that an International Planning Team, through the courtesy of Ford Foundation, visited India in 1953-54 and recommended the development of modern small-scale industries, i.e. small enterprises using modern methods of production and management.¹¹

On the basis of recommendations of the team, a separate organisation was set up to launch a systematic and coordinated development of

¹⁰. Ibid.

¹¹. Reserve Bank of India, Seminar on financing of small-scale industries in India, IIInd Volume, July 20-23, 1959, p. 182.
modern small-scale industries in the country. In order to implement the programme and policies of the Government of India for development of small-scale industries, a central organisation known as the Organisation of the Development Commissioner Small-Scale Industries was established in 1954.\textsuperscript{12} The organisation formulates policy for small-scale enterprises, furnishes and supervises the implementation of the development programmes and provides technical guidance and assistance to entrepreneurs and small industrialist in the matters relating to production and management of enterprises.

2.2 Evolution of the Concept

The concept of small-scale industries as we use it at the present is quite recent. Before this there was a composite group of village and cottage industries. This group included a variety of industries ranging from bee-keeping and lace cultivation to sandal wood and ivory carving, manufacturing of cutlery, locks, iron safes etc. Infact, the term cottage and small-scale industries was used in juxtaposition to large-scale industries.

As it has been mentioned earlier, the definition of different sizes of industries do change with the changing stages of industrialisation. India is not an exception. The definition of small-scale industries had changed whenever it was felt necessary during the various stages of economic growth.

\textsuperscript{12} SIDO, \textit{Small-Scale Industries in India}, New Delhi, 1983, p:10
2.2.1 First Attempt

First attempt to define small-scale industry was made by General Secretary of National Planning Committee set by Indian National Congress in 1938. After assessing the various aspects the small-scale industry has been defined as:

"A small-scale or cottage industry may be defined to be an enterprise or series of operations carried on by a workman skilled in the craft on his own responsibility, the finished products of which he markets himself. He works in his own house with his own tools and materials and provides his own labour or at the most the labour of such members of his family who are able to assist him. These workers mostly employ hand labour and personal skill, with little or no aid from modern power driven machinery and in accordance with traditional techniques. Such supplementary energy as is provided by animal power may add to the economy and efficiency of the industry. He works, finally for a market in the immediate neighbourhood, that is to say in response to known demand with reference to quality as well as quantity." 13

The composite definition given above combines the essence of small-scale and village industry under the prevailing conditions at that time. Later in contrast to the above definition Jawaharlal Nehru, adopted a more pragmatic approach in a note to the sub-committee on rural and cottage industries on 11th May 1940, defined it as:

"Cottage industries may be those which have:

1. No mechanised power and no hired labour,
2. No mechanised power and no hired labour upto 10 persons,
3. No mechanised power but hired labour over 10 persons,

4. Mechanised power under 10 B.H.P. but no hired labour (small-scale industries may be (3) and (4) as in cottage industry) and also,
5. Mechanised power under 10 B.H.P. and hired labour."

In the above definition Nehru has emphasised that cottage industries and small-scale industries should be treated as two separate entities.

While small-scale industries have broadly to be distinguished from large and medium scale industries according to the size, capital resources and labour forces of the individual unit, it may also be distinguished from cottage industries in that the former are mainly located in urban centres as separate establishments, while the latter are generally associated with agriculture and provide subsidiary employment in rural areas. Small-scale industries can be further distinguished from cottage industries in that the former produce goods with partially or wholly mechanised equipment employing outside labour while the latter involves operations mostly by hand and are carried on primarily with the help of the members of the family.15

The line of demarcation between cottage and small-scale industries can be observed also from the Report of Fiscal Commission 1949-50 as:

"In our view, which found generally acceptance with the witnesses whom we examined, the distinction between a cottage and a small-scale industry should turn primarily on the use of hired labour. A cottage industry is, thus, one which is carried on wholly or primarily with the help of

15. Government of India, First Five Year Plan, Para: 11.1
the members of the family, either as a full or part-time occupation. A small-scale industry, on the other hand, is one which is operated mainly with the hired labour usually 10 to 50 hands. In our view the discussion between a cottage and a small-scale industry rests mainly on the size of the unit and related fact of the contractual relationship between proprietor and the workers. In practice, however, while cottage industries are generally associated with agriculture in rural areas, small-scale industries generally provide whole-time occupation to their workers and are located in urban and sub-urban areas.

For the first time during the First Five Year Plan (1951-56) the small-scale industries were considered as a separate entity.

2.2.2 Different Categories

The small-scale industries divided into three groups:

1. Those in which small-scale production had certain advantages and were not affected by large-scale industries in any way.

2. Those in which small-scale industry was concerned with manufacture of some parts with certain stage of production in a manufacturing process in which the predominant role was that of large-scale industry.

3. Those in which small-scale industry had to compete with large-scale industries.

2.2.3 Working Definition

The first working definition adopted by Small Industry Board in their first meeting held in January, 1955, is as follow;

"A unit employing less than 50 persons if using power and less than 100 persons without using power and with capital assets not exceeding Rs. 0.5 million."

It was soon felt that the working definition did not serve any purpose, particularly from the point of view of maximum utilisation of the equipment and capital outlay. Therefore, the government adopted a new definition in 1960, as;

"Small-scale industries will include all industrial units with capital investment of not more than Rs. 0.5 million irrespective of the number of persons employed."

It was realised that the units engaged in ancillary industries need more sophisticated machinery and so higher capital investment. It was, therefore, decided to raise the capital ceiling up to Rs. 10 lakhs for industries which are manufacturing parts and components for the large-scale industries.

2.2.3.1 Ancillary Industry

Ancillary industry was defined as follow;

"A unit which produces parts, components, sub-assemblies and toolings for supply against known and anticipated of one or more large units manufacturing assemblies, complete products and which is not a subsidiary to or controlled by any large units regarding the negotiation of contracts for supply as its goods to any large unit. This shall not, however, produce an ancillary unit from entering into an agreement with a large unit giving it the first option to take the formers output."

18. Ibid
19. Mohan, K. K., Small Industry Entrepreneurs Handbook, (or How to Plan and Start/Expand a Small-scale Industry in India) Productivity Services International, Bombay,
The definition of small-scale industries which has been enforced from October 31, 1966 goes as follow:

"Small-scale industry will include all industrial units with a capital investment of not more than Rs. 7.5 lakhs irrespective of the number of persons employed. Capital investment for this purpose means an investment in productive plant and machinery." 20

The Board of Small-Scale Industry had noticed that due to steep increase in prices of capital equipment and replacement costs, there is need for upward revision in ceiling. Accordingly, the Government revised the definition in 1975, which read as follow:

"1-Small-Scale Industry undertakings having an investment in plant and machinery not exceeding Rs.10 lakhs

2-Ancillary Industry undertakings having investment in fixed assets in plant and machinery not exceeding Rs.15 lakhs and engaged;

a) the manufacture of parts, components, sub-assemblies, toolings, or intermediates, or

b) the rendering services and supplying or rendering or proposing to supply or render 50 percent of their production or the total services as the case may be, to other units for production of other articles.

Provided that no such undertakings shall be a subsidiary to, owned or controlled by any other undertakings." 21


2.2.3.2 Tiny Industries

In 1977, there was a demarcation of a sub-sector in the small-scale industries sector, known as 'Tiny Industries', initially defined as those with corresponding investment of not more than Rs. One lakh and situated at places with a population of less than 50,000.

2.2.4 Definition of Small-scale Industries

To modernise and enable the small-scale industries to play its due role in the industrial development and to help the genuine young and technically qualified entrepreneurs the Government of India revised the definition in 1980, as;

a - Tiny Units
Undertakings having investment in fixed assets in plant and machinery not exceeding Rs. 2 lakhs.

b - Small-scale Industry
Undertakings having investment in fixed assets in plant and machinery not exceeding Rs. 20 lakhs.

c - Ancillary Industries
Undertakings having investment in fixed assets in plant and machinery not exceeding Rs. 25 lakhs and engaged in;

1- The manufacture of parts, components, sub-assemblies, toolings, or intermediates, or

2- Rendering services and supplying, rendering or proposing to supply, or render 50 percent of their production or the total services, as the case may be, to other units for production of other articles.

Provided that no such undertakings shall be subsidiary of or owned or controlled by any other undertakings.
2.2.5 Present Definition

The present revised definition of small-scale and ancillary industrial undertakings, as published on 18 March, 1985 are as given below;

2.2.5.1 Small-scale Industries

"Undertakings having investment in fixed assets in plant and machinery not exceeding Rs. 35 lakhs."

Within the existing definition of the Small-scale sector, there is a "Tiny sector" comprising of units having investment in fixed assets in plant and machinery upto Rs. 2 lakhs and situated in towns and villages with a population of less than 50,000 (1971 Census figures). These units are entitled to special attention in matters of margin money and other assistance.

2.2.5.2 Ancillary Industries

Ancillary Industries are "undertakings having investment in fixed assets in plant and machinery not exceeding Rs. 45 lakhs and engaged in:

a) the manufacture of parts, components, sub-assemblies, toolings or intermediates;

b) rendering services, supplying or rendering or proposing to supply or render 50 per cent of their production of the total services, as the case may be to other units for production of other articles;
Provided that no such undertakings shall be a subsidiary of or owned or controlled by any other undertakings."\textsuperscript{22}

All the service-oriented enterprises are now eligible to be registered as small-scale establishments and are entitled for the same concessions and incentives that are available to small-scale industries and ancillary industries as defined above.

2.2.5.3 **Small-Service Establishments**

Small Service Establishments are establishments or enterprises engaged in personal or household services in rural areas and towns with a population of 5 lakhs or less and having investment in plant and machinery not exceeding Rs. 2 lakhs.\textsuperscript{23}

The definition of small-scale industries has been revised as many as five times during 1955-80, due to the changing requirements of economy as a whole and small-scale industries as a part of the economy.

2.3 **Small-scale Industries and National Policy**

The policies, relating to small-scale industries spell out in the Industrial Policy Announcement, drafted on different occasions and aim at intensifying the efforts for rapid and balanced industrialisation of the country, with a view to benefit the common man through increased availability of goods at fair prices, larger employment and higher per capita income.

\textsuperscript{22} SIDO, Report 1985-86, p. 297.

\textsuperscript{23} Ibid, p. 302.
The different roles of small-scale industries have been emphasised in different policy announcements. The general policy guidelines contained in the government announcements were further strengthened and supported by appropriate decisions on specific areas.

Regarding the ancillary development, the guidelines are from the various plans or different industrial policies.

One of the important aims of encouraging the development and growth of small-scale industries was their role in distribution of income and wealth as it is noticeable in a seminar which was held in 1959 by Reserve Bank of India on financing the small-scale industries, this role has been emphasised as:

"The primary objective of developing small-scale industries in rural areas is to extend work opportunities, raise income and standard of living and to bring about a more balanced and integrated rural economy."

And even in the First Five Year Plan it has been stated that:

"References have already been made to the Directive Principles or State Policy in the Constitution of India, laying down that operation of economic system should not result in the concentration of wealth and means of the production to the common detriment."

2.3.1 **Industrial Policy**

The development of small-scale industries was emphasised in the Industrial Policy Resolutions of the Government of India. The first

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25. Government of India, First Five Year Plan, Para : 11.2
industrial policy which was announced on 6th April 1948, clarified the role and position of small scale industries.

The importance of small-scale industries can be seen from the following words:

"Cottage and small-scale industries have a very important role in the national economy, offering as they do, large scope for individual, village and cooperative enterprises. These industries are particularly suited for the better utilisation of local resources and for achievement of local self-sufficiency in respect of certain types of essential consumer goods."26

During 1956 the new industrial policy was announced. In this Industrial Policy Resolution the strategy, to be followed, for promoting and protecting of small-scale industries was pointed out. The Resolution stated that the state has been following a policy of supporting cottage, village and small-scale industries by restricting the volume of production in the large-scale sector, by differential taxation, or by direct subsidies. While such measures will continue to be taken, whenever necessary, the aim of the state policy will ensure that the decentralised sector requires sufficient vitality to the self-supporting and its development as integrated with that of large-scale industry. The Resolution stated that, the state will concentrate on measures designed to improve the competitive strength of the small-scale producer. For this reason it is essential that the technique of production should be constantly improved and modernised, the pace of transformation being regulated to avoid as far as possible, technological unemployment. Lack of technical and financial

26. Rao, R.V., Cottage and Small-scale Industries and Planned Economy, Sterling Publisher, Jullundar, 1965, p. 31
assistance, suitable working accommodation and inadequacy of facilities for repair and maintenance are among the serious handicaps of small-scale producers. The Resolution stated further as:

"Many of the activities relating to small-scale production will be greatly helped by the organisation of industrial co-operatives. Such co-operatives should be encouraged in every way and the state should give constant attention to the development of cottage, village and small-scale industry.""

Small-scale industries are developing and prospering in India and they are emerging as the basis of industrial progress as they are being provided help and assistance at every stage of their life cycle from establishment to the marketing of their products. Various institutions and organisations have been set up to promote their development and as it has been noticed in the previous paragraph, government policy towards them is encouraging and even protecting. The government has taken various measures to minimise their difficulties and solve their problems as much as possible.

Industrial Policy Statement made by Central Government on July 23, 1980, emphasising this role of small-scale industries as:

"The Policy recognises that industrial development is an interdisciplinary concept and pertains not only to the manufacturing activity, but to all related infrastructural development, preservation of ecological balance and improving the living conditions of the people.""


2.3.2 Five Year Plans

The development and growth of the small-scale industries has been emphasised in the successive Five Year Plans. The promotional and protective policy is the government role in development of small-scale industries. During the past few decades, government has been able to stimulate a large number of small industries in the country by encouraging the small entrepreneurs, because the investment in small-scale units is mainly the responsibility of small industrialists.

2.3.2.1 First Five Year Plan

The First Five Year Plan commenced in April 1951. In this plan emphasis was given to agriculture, irrigation and power generation. The development programme for small-scale industries in real sense began towards the end of the plan.

The actual development programme for small-scale industries started only towards the end of 1954. The government outlay on small-scale industries during the plan period was about Rs. 5.20 crores. 29

In the First Plan a major step taken for the development of village and small industries was to establish All-India Boards to advise and assist in the formulation of the programmes of the development of small-scale industries, including sericulture and coir. The First Plan attempted to indicate some of the problems which were

29. SIDO, Report (1978-79), p. 31
involved in formulating substantial development programme for small industries and handicrafts.

2.3.2.2 Second Five Year Plan

The Second Five Year Plan commenced from April 1956. It emphasised on the industrialisation. The government outlay in Second Five Year Plan was about Rs. 56 crores. It was during this span that the industrial estate was introduced.

A number of new programmes were organised and steps were taken to provide a more assured market for the products of some of the industries. Reservation of the production of certain varieties of cloth and certain types of agricultural implements, prohibition of further expansion in certain large-scale industries like vegetable oils, rice milling, leather foot wear, match, etc., and the laying down of separate targets of production for the small-scale and the large-scale sectors of certain industries like bicycles and sewing machines.

2.3.2.3 Third Five Year Plan

The year April 1961, was the commencement of Third Five Year Plan. The aim of this plan was to secure a marked advance towards self-sustained growth. In this plan the assistance pattern for the development programme of small-scale industry was revised and it was thought that state governments should be given greater authority in

30. Ibid.
utilising funds allotted to small-scale industries. The outlay on small-scale industries in this plan were Rs. 90.91 crores for small scale industries and Rs. 22.15 crores for industrial estates and total was about Rs. 113.06 crores.\textsuperscript{31} Guidelines contained in the government announcements were further strengthened and supported by appropriate decisions on specific areas.

Regarding the ancillary development, the guidelines from the various plans or different Industrial Policies are as follows.

Development of small-scale industries as ancillary to large-scale industries has been emphasised upon since Third Five Year Plan. In Third Five Year Plan it has been emphasised that;

"With a view to planned development it is essential to take a comprehensive view of the requirements of the community, the contribution which small industries and the extent to which the processes and stages of production can be decentralised. Various aspects of integration between large and small industries have to be considered in detail for each industry."\textsuperscript{32}

The main objectives of the Third Plan regarding programmes for village and small-scale industries were:

1) To improve the productivity of the worker and to reduce production costs by placing a relatively greater emphasis on positive forms of assistance, such as improvement of skill, supply of technical advice, better equipment and credit,


\textsuperscript{32} Government of India, Third Five Year Plan, Para: 24.
2) To progressively, reduce the role of subsidies, sales rebates and sheltered markets,

3) To promote the growth of industries in rural areas and in small towns,

4) To promote the development of small scale industries as ancillaries to large industries.

2.3.2.4 Annual Plans

Due to some economic problems the Fourth Five Year Plan could not be started according to the schedule and the plan remained suspended for three years i.e. 1966-69 (April 1966–March 1969). Therefore, during this gap the central as well as state governments prepared short period annual plans. Expenditures incurred on the development of small-scale industries during Annual Plans were Rs. 45.90 crores of small-scale industries and Rs. 7.58 crores for industrial estates and total will be the amount of Rs. 53.48 crores.

2.3.2.5 Fourth Five Year Plan

The aim of this plan was to accelerate development of the country in condition of stability, reducing fluctuations in agriculture production as well as uncertainties of foreign aids. The particular emphasis in this plan was laid on improving the condition of the weaker sections of the society. The outlay of the plan was, Rs. 80.46 crores for small-scale industries and Rs. 15.73 crores for industrial estates, totalling to Rs. 96.19 crores.

33. Government of India, Third Five Year Plan, Para: 14
34. SIDO, Report (1980–81), p.18
The main programmes during the Fourth Plan was to entrust the work of administration of credit facilities under the State Aid of Industrial Act, training and common services facilities, quality marketing and consolidation of the Industrial Estate Programme: to the states. The Central Government continued to implement schemes related to industrial research, industrial extension service, supply of machines on hire-purchase terms etc.

2.3.2.6 Fifth Five Year Plan

The main objectives of the programmes for development of the small-scale industries during the Fifth Five Year Plan were to create large-scale employment opportunities, promote decentralisation and dispersal of industries, develop agro-based and ancillary industries. The expenditure during Fifth Five Year Plan (1974-79) totalled Rs. 221.74 crores.\(^{35}\) For the Annual Plan of 1979-80 the total expenditure for small-scale industries and industrial estates was Rs. 104.81 crores. These data are not available for expenditure by small scale industries and industrial estates separately.

The broad strategy of the programme was to:

1) Develop and promote entrepreneurship and produce a "purchase of consultancy services" so as to generate the maximum opportunities for employment, particularly self-employment;

2) Facilitate a fuller utilisation of the skills and equipment of the persons already engaged in different small industries;

\(^{35}\) Ibid, p.5
3) Progressively improvement in the production techniques of these industries so as to bring them to a viable level;
4) Promote these industries in selected "growth centres" in semi-urban and rural areas, including back-ward areas.

2.3.2.7 Sixth Five Year Plan

This plan is in force from 1980-85 and the programmes for the development of small-sale industries is mainly oriented to rehabilitate the sick units, to assist the house hold and rural industries to expand and to promote the growth of tiny industrial units situated in rural areas and small towns. The existing guide lines of promotion of small-scale industries as ancillaries of the large-scale industries and undertakings in the public sector will be reviewed so as to make them more effective. In this plan the total outlay for small scale industries and industrial estates taken together amount to Rs. 616.10 crores. 36

Sixth Five Year Plan has given top priority to small-scale and village industries to accelerate the process of industrialisation, particularly, in rural and backward areas, to generate large-scale employment opportunities and to up grade the existing levels of skills as well as the quality of their products. In view of changes in economic environment, the base of small-scale industries has been broadened by redefining it to include those manufacturing and repairing units which have investments in plant and machinery up to Rs. 20 lakhs. The rapid growth of small-scale industries is

characterised technological innovations, the development of managerial
talent and improvements in technical skills, which to rise in
production and productivity.

The government is stressing on strengthening the position of
small-scale units as ancillary for the sake of industrial development
all over the country as Sixth Five Year Plan emphasises on this matter
as:

"The existing guidelines of promotion of small-scale industries as ancillaries of large-scale
industries and undertakings in the public sector will be reviewed so as to make them more
effective. Suitable measures will also be taken for ensuring prompt payments by large industries to
small ancillary units. Studies of selected small industries having considerable potential for
development including modernisation, will be taken up on a priority basis."

2.3.2.8 Seventh Five Year Plan

Within the overall objectives of food, work and productivity laid
down in the Seventh Plan, this sector would contribute towards
improving the economic and occupational profile of rural, semi-urban
and weaker sections of urban communities through promotion of village
and small-scale industrial activities. This sector would,

i) assist in the growth and widespread dispersal of industries;

ii) increase the level of earning of artisans;

iii) sustain and create avenues of self-employment;

37. Government of India, Draft Sixth Five Year Plan, Para: 11.34
iv) ensure regular supply of goods and services through the use of local skills and resources:

v) develop entrepreneurship in combination with improved methods of production, through appropriate training and package of incentives, and

vi) preserve craftsmanship and art heritage of the country.

The strategy for achieving the above objectives would constitute the following:

1) Improve productivity, enhance quality, reduce costs and restructure product-mix through upgradation of technology and modernisation.

2) Optimise utilisation of existing capacities through supply of adequate inputs including credit, power and raw material etc.

3) Expand share of village and small industry products in the domestic markets through publicity, standardisation, market support and increased participation in the government purchase programme.

4) Strengthen the programmes of ancillaryisation to establish and improve links between large and small industries leading to harmonious growth of the total industrial sector.

5) Promote specialisation in production and export-oriented industries.
6) Strengthen and enlarge skill profile, entrepreneurial base and management practices to increase opportunities for self-employment.

7) Improve the general levels of, welfare of workers and artisans through better working condition, welfare measure and security of employment. 38

The Seventh Plan policy envisage discouraging setting up industries in or around urban agglomerations and a package of incentives would be provided to attract industries in the backward areas. In order to use the existing infrastructure, emphasis would be laid on the growth centre concept for promotion of industries in the less developed areas.

The process of development of appropriate technology and its wider application in the field would be strengthened.

Against the Sixth Plan outlay of Rs. 616.10 crores the outlay for the Seventh Plan in respect of centre, states and Union Territories stands at Rs. 1120.51 crores. 39

The table given on next page shows the plan outlay on small scale industries:

38. Government of India, Seventh Five Year Plan, Para: 4.7
39. Ibid, p.104
Table 2.1 The Outlays for the Development of SSI in Successive Five Year Plans (Rs. Crores).

<table>
<thead>
<tr>
<th>Plan Period</th>
<th>SSI</th>
<th>Industrial Estate</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Plan</td>
<td>1951-56</td>
<td>5.20</td>
<td>N.A.</td>
</tr>
<tr>
<td>2nd Plan</td>
<td>1956-61</td>
<td>44.40</td>
<td>11.60</td>
</tr>
<tr>
<td>3rd Plan</td>
<td>1961-66</td>
<td>90.91</td>
<td>22.15</td>
</tr>
<tr>
<td>Annual Plan</td>
<td>1966-69</td>
<td>45.90</td>
<td>7.58</td>
</tr>
<tr>
<td>4th Plan</td>
<td>1969-74</td>
<td>80.46</td>
<td>15.73</td>
</tr>
<tr>
<td>5th Plan</td>
<td>1974-79</td>
<td>final break</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1979-80</td>
<td>up not</td>
<td></td>
</tr>
<tr>
<td>6th Plan</td>
<td>1980-85</td>
<td>available</td>
<td></td>
</tr>
<tr>
<td>7th Plan</td>
<td>1985-90</td>
<td>&quot;</td>
<td></td>
</tr>
</tbody>
</table>

Thus, a careful study of all the plans reveals that government has incurred higher expenditures during the successive five year plans on the development programmes of small-scale industry. The expenditure which was incurred in the Second Plan is nearly 10 times of the expenditure in the First Plan and this heavy expenditures in Second Plan reveals that the actual development Programme for small-scale industries started from this time only.

40. (1) Government of India, Sixth Five Year Plan Document, Table: 12.3
(2) Government of India, Seventh Five Year Plan Documents, Table 4.3 page 104, Vol. II
Hereby, one may conclude that the policies constitute the frame work or guidelines for appropriate decisions at varied levels. They generally consist of statement that affect the working of small-scale industries, too. This is affected by a number of policies, which are the base of effective plan development.

2.4 Small-scale Industries: Present Status

2.4.1 Contribution to National Income

The small-scale sector is the second major contributor to the industrial economy of the country. It provides maximum employment, second only to the agricultural sector. In terms of value added, it contributes about fifty percent of that of the manufacturing sector. It accounts for more than one third of the total exports of the country. Apart from direct exports, products of a large number of small-sale units are exported indirectly through merchant exporters, export houses and other channels. In addition to providing direct and indirect employment to million, this sector is engaged in providing technical and commercial training to a large segment of rural and urban population who either cannot afford to seek higher education or just can not find a berth in a highly competitive employment situation. It has substantially drawn its human resources from the weaker sections of the society and is close enough to the rural sector to appreciate and fulfill the needs of this sector.

41. Government of India, Seventh Five Year Plan, Para: 4.1
2.4.1.1 **Employment**

The employment potential of small-sale sector in a labour surplus country like India has made the Government to emphasise on development of small-scale industries for its gainful employment opportunities. The role of small-scale industries which are labour intensive and capital-saving has, therefore, been rightly emphasised in the Industrial Policy statement as well as different Five Year Plans regularly. The role of small-scale sector is more important for the economy when there is large-scale unemployment, underemployment and there is dearth of sophisticated machinery and modern technology.

Emphasising the development of small-scale sector for its vital role in labour-intensivity and capital saving is continuing from the First Five Year Plan as can be seen in the Third Plan,

"Small-scale industries witnessed a significant contribution in the First and Second Plans in acheiving the objective of expended employment, larger production and more equitable distribution. With the larger dimensions of the tasks to be accomplished in the Third Plan, the role will be even more important. The objective of the programmes for these industries as set out in the Industrial Resolution of 1956 and Second Plan are to create immediate and permenant employment on a large-scale at relatively small capital cost..."  

And even at some other parts it explains that:

"With a view o providing fuller employment and strengthening and diversifying the rural economy, it will be desirable to develop these industries to the maximum extent in decentralised small-scale sector and on a cooperative basis."  

42. Government of India, *Third Five Year Plan*, Para: 1

43. Ibid, Para: 23
Also in the Sixth Plan we still see the emphasis on the development of small-scale industries as a means to provide opportunities of employment. The draft Sixth Five Year Plan expressed as:

"The rapid and wide spread development of small-scale industries is one of the major objectives of the plan as a part of primary goal of reducing unemployment and underemployment in the country. The major components of the strategy to be adopted in formulating and implementing the development programmes for these industries to be taken up in the new plan are:

1 - to generate opportunities for fuller and full-time employment by:
   a) revitalisation and developing the existing traditional and other small-scale industries, and
   b) promoting intensive development of new viable small-scale industries.

2 - .....etc."\(^44\)

Comparing the amount of investment in small-scale with large-scale industries as well as the number of persons employed by the same industries, then one can imagine the role of small-scale industries in their employment orientation and capital saving role they play in Indian economy.

It has been calculated that for every worker employed in the small-scale industries investment of only Rs.5,800 is required against Rs.30,900 in the large-scale sector. In other words, a project in small-scale sector with an investment of Rs.one million

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\(^44\) Government of India, Draft Sixth Five Year Plan 1978–83, Para:11.7
normally provides employment to 172 persons, while the same number of employees in the large-scale sector will require an investment of 5.31 million. According to the development commissioner (Small-scale Industry), the employment generation in small-scale factory units is five times that of large establishment for same order of investment in fixed assets.

Although one can not ignore the relationship between small-scale and large-scale, as this relationship is complementary and manifests itself significantly in the form of sub-contracting to their great mutual advantages. But, with all these facts one shall be convinced how great and important is the role of small-scale sector in providing employment.

Table below shows the admirable growth of employment generation by small-scale sector:

Table 2.2: Employment Generation by SSI

<table>
<thead>
<tr>
<th>Year</th>
<th>1977-78</th>
<th>78-79</th>
<th>79-80</th>
<th>80-81</th>
<th>81-82</th>
<th>84-85</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment in 1000's</td>
<td>5,890</td>
<td>6,380</td>
<td>6,975</td>
<td>7,100</td>
<td>7,500</td>
<td>8,900</td>
</tr>
</tbody>
</table>

Source: The Economic Times, New Delhi, Jan. 19, 1985, P:IV

The table reveals that the steady growth has been achieved during this short period.

With the fact that 75 lakh persons were provided different jobs by small-scale industries up to 1981-82 (and with such a growth rate, surely the available jobs in the future must be much more than this), it can be concluded that the role of small-scale industries in offering opportunities for employment should receive considerable attention.

2.4.1.2 Non-Economic Dimensions

Small-scale industries play a strategic role in the progress of a country. These industries, by and large, represent a stage in economic transition from traditional to modern technology. The transitional nature of this process is reflected in the diverse nature of these industries. Some small-scale units use simple skills and machinery, while many other units use modern and sophisticated technology. The challenge of economic growth is to accelerate the productivity of agriculture and industry by improving their production techniques, so far as industries are concerned, this will involve the adoption of a progressively superior technology, particularly in semi-urban and rural areas.

Basically, small industries are important for national development programmes because they can make a definite contribution to the realisation of central purpose of such a problem, i.e. to bring about an efficient utilisation of natural, human and capital resources of the country for achievement of pre-determined ends.

It is true that small-scale industries constitute the back-bone of a developing country like India. The phenomenal expansion of
small-scale industries reflects the potential of such industries. Occupying an awesome height in the strategy of development. These industries have become an invaluable weapon in bringing about a balanced, integrated socio-economic order in the country.

The concentration of industrial and other activities has given birth to the phenomenon of the so-called pockets of development where economic and social changes is achieved at a much faster rate than in outlying rural districts. The presence of pockets of development is an impediment to the rapid growth of the national economy.

This trend, although predominant, can be checked and corrected through the establishment of small-scale industries. The establishment of small-scale industries would, therefore, make it possible to reverse the current trend of the migration of the people from rural to urban areas. A fact which is becoming a disturbing phenomenon in all developing countries, including India.

Small-scale industries are more flexible as they can switch over from one line of production to another, in case of any mistake, without substantial loss.

It has been rightly said that:

"If the decisions are small involving smaller units, before the waste of investment has gone very far, the mistakes will be seen, and the resources can be diverted to other more promising lines of development."

2.4.2 Performance

The performance of small-scale industry has been impressive. It is now one of the fastest growing sectors of the economy.

During the short period of 5 years ending 1983-84, the production in the small scale sector has recorded an increase of 60 percent in real terms, the employment in this sector risen by 32 percent and investment by 66 percent.\textsuperscript{47}

The performance in the sphere of exports is also heartening. During 1983-84, the aggregate export of small-scale units rose to Rs. 2350 crores or by 120 percent as compared to the 1978-79 level and accounted for nearly 25 percent of the value of exports during that year.

There has also been a phenomenal increase in the number of units as well as in the value of investment in the small-scale industry, the number of registered units with the Small-scale Industries Development Organisation (SIDO) jumping from 3.34 lakhs in 1978-79 to 6.76 lakhs in 1983-84. Taking into account the unregistered units, the total number of small-scale units has risen from 7.34 lakhs to 11.5 lakhs during this period.

During 1985-86, production from small scale industries is estimated to be around Rs. 61,100 crores, at current prices, providing employment to about 96 lakh persons by the end of 1985-86. Exports from the sector are estimated to be Rs. 2580 crores in 1984-85 as

\textsuperscript{47} The Economic Times, Wednesday, January 30, 1985 New Delhi, p.1
against Rs. 2219.23 crores in 1983-84. Exports from the sector accounts for about 22 percent of the total exports from the country.

1985-86 was the first year of the Seventh Five Year Plan. The production at 1984-85 prices from small-scale industries which was targeted to increase from Rs. 50,520 crores to Rs. 55,225 crores during 1985-86 was not only achieved but exceeded. The achievement during the year is estimated to be Rs. 57.100 crores at 1984-85 prices. 48

The value of investment is also considerable, amounting to Rs. 7360 crores or 66 percent higher than what it was in 1978-79. 49

The above statistics makes impressive reading and testify to the dynamism that has characterised the performance of the small-scale industries in recent years. Broadly speaking, the success achieved in this area stems from a number of factors. There has been a marked improvement in the availability of raw materials, both indigenous and imported. There has been a spurt in the import licences issued to small-scale units and the list of items brought under OGL imports for actual users has been increased to remove one irritant in the way of better showing. Besides, the volume of credit made available to small-scale units has gone up considerably.

During the financial year (1986-87 upto August 15), aggregate deposits of scheduled commercial banks have shown a net rise of Rs. 6,134 crores (7.2 percent) against the rise of Rs. 5,128 crores

49. The Economic Times, New Delhi, January 30, 1985, p.IV
(7.1 percent) in the same period of previous year. Total bank credit has expanded by Rs. 907 crores (1.6 percent) against the expansion of Rs. 1,455 crores (3.3 percent) in the same period of the previous year.50

Owing to welcome changes in the industrial policy of the government the small-scale sector have also contributed to its sustained high growth. In particular, the items reserved for manufacture exclusively in the small-scale sector as well as the items reserved for exclusive purchase by the government have been progressively enlarged. The continuation of price preference schemes and simplification of conditions for assistance from various financial institutions and banks have also contributed a great deal to impressive trade record of this sector. What the statistics do not reveal is the significant strides made by the small-scale sector in the direction of quality and range of products manufactured. Though, there is a great scope for modernisation, it cannot be denied that significant improvement has taken place in this direction also. Initially, this sector was content with producing relatively simple (products) items like soaps and detergents. It has now entered into sophisticated fields like electronics and computers.

All these do not suggest that there has been no deficiencies and areas of weakness in the growth and development of the small-scale industry in India. These problems have been examined separately. The point is that despite many constraints, the industry has registered good performance in the recent past.

The data given in Table (2.3) underscore the rapid strides made by the small-scale industry. They also stress the increasingly important role played by the sector in the Indian economy. The Industrial Policy Resolution of 1956 and 1980 reiterated the importance of the small-scale sector and emphasise the continued need for its development as an essential step towards economic self-reliance.

A strong case for rapid growth of small-scale units is due to many factors, of which the relatively small requirements of capital and high employment-output ratio and perhaps the most important. In this context, it is worth recalling the observations of the Industrial Policy Resolution of 1980:

"They provide immediate large-scale employment, they offer method of ensuring a more equitable distribution of the national income and they facilitate an effective mobilisation of resources of capital and skills which might otherwise remain unutilised. Some of the problems that unplanned urbanisation tends to create will be avoided by the establishment of small centres of industrial production all over the country."[51]

The Industrial Policy Resolution of 1980 also accorded importance to the small-scale industry and made some suitable policy changes. More recently, the definition was relaxed to include service oriented industries and the list of industries reserved for exclusive development was increased as also the items reserved for purchase by government.

51. The Economic Times, New Delhi, January 19, 1985, p.I
Table: 2-3: Growth of Small-scale Industry during Sixth and First year of the Seventh Plan

<table>
<thead>
<tr>
<th>Sixth Five Year Plan Period</th>
<th>Average Annual increase in percentage during 6th Plan 1980-81 to 1984-85</th>
<th>First year of increase over (1985-86) 1984-85</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Production at Current prices (Rs. in crores)</td>
<td>2,80,60 32,600 35,000 41,620 50,520 18.71 61,100 20.94</td>
<td></td>
</tr>
<tr>
<td>3. Production at 1970-71 Prices (Rs. in crores)</td>
<td>10,906 11,837 12,800 14,120 14,970 8.36 17,860 19.31</td>
<td></td>
</tr>
<tr>
<td>4. Export (Rs. in crores) at current prices</td>
<td>1,643 2,071 2,097 2,219 2,580 16.68 N.A. N.A.</td>
<td></td>
</tr>
<tr>
<td>5. Employment (in lakh Nos)</td>
<td>71.00 75.00 79.00 84.15 90.00 6.08 96.00 6.67</td>
<td></td>
</tr>
</tbody>
</table>

Source: Report 1985-86, SDIO, P: 3
FIG. 2.1. GROWTH OF SMALL-SCALE INDUSTRIES DURING SIXTH AND THE FIRST YEAR OF SEVENTH FIVE YEAR PLAN
The encouragement given by the government to enable small-scale industry to record good progress can be seen in Table (2.4). This is in addition to price preference scheme for purchase of goods by the government.

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of items</th>
</tr>
</thead>
<tbody>
<tr>
<td>1956-57</td>
<td>16</td>
</tr>
<tr>
<td>1962-63</td>
<td>63</td>
</tr>
<tr>
<td>1965-66</td>
<td>84</td>
</tr>
<tr>
<td>1970-71</td>
<td>167</td>
</tr>
<tr>
<td>1976-77</td>
<td>241^1</td>
</tr>
<tr>
<td>1980-81</td>
<td>379</td>
</tr>
<tr>
<td>1981-82</td>
<td>384</td>
</tr>
<tr>
<td>1982-83</td>
<td>404</td>
</tr>
<tr>
<td>1983-84</td>
<td>404</td>
</tr>
<tr>
<td>1984-85</td>
<td>404</td>
</tr>
<tr>
<td>1985-86</td>
<td>409^2</td>
</tr>
</tbody>
</table>

Source: 1 The Economic Times, New Delhi, January 19, 1985, p.IV
2. SSI in India, Fact & Figures, SIDO, 1987, p.13

Another aspect of the policy thrust is evident from the number of items reserved to be manufactured exclusively by the small-scale sector has increased to 863 from only 118 in 1967-68.
If the constraints of timely and adequate supply of raw materials, sufficient finance and marketing facilities are overcome the overall performance of the small-scale industry would be even more impressive than what has been achieved in the recent past. This is to say that, this sector holds, immense potential for further development.

2.4.3 Growth of Small-scale Industries

Small-scale industries have acquired a coveted place in the new economic policy of government, more particularly in realising the primary national objectives 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, house hold and small-scale industries.

The last few years have witnessed a spectacular growth in the small-scale sector. This can be a significant feature of planned economic development in India. During 1977 the value of production has registered an increase by 12.98 percent over the previous year. The contribution of the small-scale sector in the total industrial production in the country has increased from 35 percent in 1972 to 40 percent in 1976. The share of the sector in the total exports has increased from 9.6 percent in 1971 to 17 percent in 1976-77, and small-scale sector accounts for 40 percent of the total non-traditional exports. 52

In order to get an idea of the economic viability of the small-scale sector, it would be relevant to make a study of the comparative

position of the small-scale sector with the large-scale in respect of output, fixed investment, net additions in value and capacity for creation of employment opportunities. The comparative figures of the small-scale and large-scale sectors for 3 years, are as given below:

Table 2.6 - Comparative Figures of SSI and LSI

<table>
<thead>
<tr>
<th>S.No.</th>
<th>Items</th>
<th>Annual Survey Of Industries</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>1973 - 74  1974 - 75  1976 - 77</td>
</tr>
<tr>
<td></td>
<td></td>
<td>SSI    LSI    SSI    LSI    SSI    LSI</td>
</tr>
<tr>
<td>1</td>
<td>No. of Unit (1000 Nos)</td>
<td>57.9    6.2    57.3    6.9    65.5    6.2</td>
</tr>
<tr>
<td>2</td>
<td>Output/fixed investment</td>
<td>5.55    1.47    7.86    1.80    5.60    1.80</td>
</tr>
<tr>
<td>3</td>
<td>Value added/fixes investment</td>
<td>0.90    0.39    1.22    0.46    0.96    0.41</td>
</tr>
<tr>
<td>4</td>
<td>Fixed investment/ workers</td>
<td>4.5    25.9    3.8    27.8    5.8    30.9</td>
</tr>
</tbody>
</table>

It will be seen that the production per unit of investment in the small-scale during 1975-76 was 5.60 against 1.80 in large-scale sector. Similarly, the net additions in value per unit of fixed investment in respect of the small-scale was 0.96 against only 0.46 in the large-scale sector. As mentioned earlier it is interesting to

note further that a project in the small-scale sector with an investment of Rs. 10 lakhs would normally have the capacity of providing employment to 172 persons. The same number of employees if employed in the large-scale sector, would require an investment of Rs. 53.4 lakhs namely over 5 times the investment necessary in the small-scale sector. As these ratios keep on increasing year by year, (as in 1974-75 it was 3.8 and 1976-77 was 7.8), it shows that the acceleration of the number of workers with the promotion of small-scale industries.

During the period of 1974-80, the production in the small-scale industries went up from Rs. 7,200 crores to Rs. 19,060 crores, the growth rate marks to 9.5 percent per annum. Employment and exports registered increase from Rs. 39.65 lakhs to Rs. 64.60 lakh persons and from Rs. 538 crores to Rs. 1,050 crores, respectively. In terms of gross value in 1977-80, the share of the sector was around 49 percent of output in the manufacturing sector and 51 percent in terms of value added. 54

During 1981-82 small industries produced goods and services worth about Rs. 32,600 crores and provided employment to about 75 lakh persons. Export from small-scale industries during the year was about 26 percent of the total exports from the country. During the period from 1979-80 to 1981-82 there was an average annual growth of 9.5 percent in production at constant prices and about 5.8 percent growth in employment. 55

<table>
<thead>
<tr>
<th>Sixth Five Year Plan Period</th>
<th>Average Annual Increase in Percentage during 6th Plan 1980-81 to 1984-85</th>
<th>% age increase 1985-86 over 1984-85</th>
</tr>
</thead>
</table>

| 1. No. of Unit (lakh Nos) (cumulative) | 8.57 | 10.07 | 10.08 | 9.35 | 10.73 | 9.76 | 8.62 |
| 2. Production at Current Price (Rs. in crores) | 29.70 | 16.18 | 7.36 | 18.91 | 21.38 | 18.71 | 20.94 |
| 3. Production at 1970-71 Prices (Rs. in crores) | 8.79 | 8.54 | 8.14 | 10.31 | 6.02 | 8.36 | 19.31 |
| 4. Employment (in lakh Nos) | 5.97 | 5.63 | 5.33 | 6.52 | 6.95 | 6.08 | 6.67 |
| 5. Export at Current Prices (Rs. in crores) | 34.0 | 26.05 | 1.25 | 5.82 | 16.27 | 16.68 | N.A |

Source: Report 1985-86, SDIO, P: 3
The growth of the sector during 1982-83 is also equally impressive with a 10 percent growth in employment.

During the Sixth Five Year Plan period the small-scale industries sector has registered significant growth. The average annual growth rate during this period were; number of units (9.76 percent), production at constant prices (8.36 percent), employment (6.08 percent) and export at current prices (16.68 percent) respectively. This tempo of growth has continued during the first year of the Seventh Plan (1985-90). Growth rate achieved during the year were; number of units (8.62 percent), production at constant prices (19.31 percent) and employment (6.67 percent) respectively.\textsuperscript{56}

The small-scale sector has also achieved a high degree of sophistication and significant progress in quality upgradation and standardisation. Beginning with the simple consumer goods such as soap, detergent, leather goods, etc., this sector has now entered into sophisticated field of production including electronics and electromedical devices.

2.5 Organisational Structure

2.5.1 Small-scale Industries Board

The government of India invited in 1953, an international team of experts sponsored by the Ford Foundation to study the problems of small-scale industries for the purpose of recommending a programme of development in view of their importance in the national economy. The recommendations of the team fall under three categories, viz.,

\textsuperscript{56} SIDO, Report 1985-86, p.2
a) those relating to the provision of technical knowhow and
knowledge of business methods and management;
b) those that bear on the financial assistance to be provided
in the form of credit facilities; and

c) those which are concerned with other forms of aid and
services, such as assistance in securing government
contracts, market facilities and research and supply of
modern machine tools on easy installment terms.

Among the many steps the Central Government took in pursuance of
these recommendations, one was the setting up of the Small-Scale
Industries Board in November, 1954 to advise it on the programme and
work of the different agencies looking after the development of small-
scale industries in the country.

Set-up: The Board has at present 50 members, including representatives
of the Central and State Governments, the Reserve Bank of India and
the State Bank of India, non-officials, etc.

The Union Minister for Industries is the chairman of the Board.
The Board reviews at its periodical meetings the work of the various
development agencies, discusses such weaknesses as may be located in
planning or execution, and offer advice on modifications or
improvements.

A Standing Committee of the Board was set up in 1957, which
meets at least once in two months. The Committee as recently
reconstituted, consists of 10 members, including the Union Minister
for Industries who is its chairman.
2.5.2 **Industrial Estates**

An important aspect of the programme for the development of small-scale industries relates to the construction of industrial estates where suitable workshops are provided for small-scale industries, together with water, power, transport and other facilities like common service equipment. The Board keeps a close watch on the progress achieved in the establishment of these estates, their requirement and problems.

2.5.3 **District Industries Centres**

The District Industries Centres (DIC) Programme was launched on 1st May, 1978 to provide a district level set up for the promotion of small, tiny, village and cottage industries under a single roof, as far as practicable at pre-investment, investment, and post-investment stages. The main thrust of this programme is on the development of such industrial units in rural areas and small towns of the country, which would create larger employment opportunities in these areas. The total number of approved District Industries Centres stands at 418 including 10 District Industries Centres sanctioned recently. These Districts Industries Centres cover 427 districts out of 432 districts of the country. 57

2.5.4 **Small Industries Service Institute**

The technical assistance programme (Approved by the Board), which is currently executed by the Small Industries Service Institutes,

57. SIDO, Report 1985-86, p.27.
covers a wide field, including a systematic assessment of the prospects for specific kind of small industries, both existing and potential, in different regions of the country, preparation of model schemes for various kinds of industries for the use of state governments and others; scrutiny of State Schemes; and organisation of demonstration and training workshops etc. The Board has set up a committee to suggest short and long-term measures to be taken for the training of skilled workers and supervisors in small industries.

2.6 Conclusion

The growth of modern small-scale industries in India has been one of the important features of its planned economy.

The Indian experience is of great relevance to that of other developing countries because at the time of Independence, the Indian industry presented a picture similar to that prevailing in some other countries today. It was typified by the absence in sufficient numbers of modern entrepreneurial class, in industry which was largely traditional with the great bulk of it being in the textile sector, both Jute and Cotton. The engineering establishments which existed were neither very large nor modern. There was, therefore, the necessity of ensuring that in the process of modernisation of industry and development of modern sectors of industry, efforts should be made for balanced growth, for growth of labour-intensive industries and labour-intensive techniques and for the most economical use of capital which was also one of the major constraints of growth For these reasons India's experience, know-how and personnel who have carried
out these processes of adaptation and development could perhaps be relevant to the needs of other developing countries.

But, there should be a proper condition for small-scale industries to grow. In many countries, assistance is needed for formulating policies, drawing up programmes and adopting measures for promotion of small-scale industry as part of over-all industrial development programmes. In some cases, a statement of policy, an action programme and targets should be prepared in corporation with the national development plans.

In other cases, guidance in policies and programmes is required by a department of industry or a development corporation or financial corporation. Iran, as it has been discussed in the earlier chapter, also needs to have clear policies regarding small-scale industries. There should be thorough investigation in the sector to find out the necessities and then programme accordingly.
CHAPTER III : INPUT RELATED ISSUES

3.1 INDIA

3.1.1 Introduction

In the previous chapter, a review was made of the working of small-scale industries. It was pointed out that such industries have done well. They have achieved phenomenal progress during the past three decades of planning and now constitute one of the fastest growing segments of the economy. How dynamic this sector has been is underscored by the fact that, during the short span of five years ending 1983-84 its production, after allowing for inflation has registered an increase of 12 percent per annum while the increase in employment has been in order of nearly 7 percent.

There has been substantial increase in the number of small-scale units, in employment generated and in the range of quality of items manufactured. In fact, according to the mid-term appraisal of the Sixth Five Year Plan, the actual performance of this sector has exceeded the targets during the first three years of the plan and it is virtually certain that this impressive track record would be maintained in the future also.

This is, of course, a superficial reading of the situation. A closer look at the small-scale industry reveals many deficiencies in its working and also that some of the sound policy measures could not be implemented efficiently.
To implement a massive programme of development of small-scale industries, it would be necessary to improve skills through training and providing a number of incentives for attracting entrepreneurs to the field. Fiscal and other measures are required to enable these industries to stand at their feet firmly. Greater emphasis will have to be placed on a variety of positive measures including provision of both short and long-term credits on a liberal basis, adequate supply of scarce raw materials, full utilisation of capacity, adequate measures for quality control, tax concessions and differential excise duties. Further, some protection should be provided to small-scale industries to include products components, and even processes which are undertaken efficiently in the small-scale sector.

Production problems are the problems of inputs in manufacturing units. These problems are encountered by the units during the course of its production cycle or transforming raw materials into the finished products. Production problems constitute major part of all problems faced by a manufacturing organisation. Of course, this percentage is different from industry to industry and from location to location. They are not only large in number but diverse in nature also. Some important production problems faced by small-scale industries during the course of their production cycle are as follows:

a) Raw materials
b) Financial problems
c) Technology and Technical services
d) Experienced and skilled labour, and
e) Others

1. Government of India, First Five Year Plan, Para: 12.5.
In the following lines these problems will be individually examined in order to assess their significance and magnitude.

3.1.2 **Raw Materials**

The greatest problem faced by small-scale industries relates to the acute shortage of the right type of raw materials at standard prices. The problem has affected the entire industrial sector. For smooth functioning of an industrial unit it is necessary that the sources of supply are easily accessible. Shortage of raw materials in case of small-scale industries is particularly significant as it is largely due to their structure being small.

The allocation of raw materials to small-scale industries is less as compared to large-scale industries. The International Perspective Planning Team sponsored by Ford Foundation on scarce raw materials has also verified this fact in the following words:

"International Perspective Planning Team (1963) collected data about the allocation received at fix prices from the Department of Technical Development, Ministry of Industry, by a large number of large firms as well as small firms producing similar goods. Analysis of data revealed that the large-scale units were allocated 85 percent of their one shift requirements of raw materials, while small firms received allotments to cover only 33-40 percent of their one shift requirements."

And even the Loknathan Committee on scarce raw materials, appointed by Government of India found similar facts, it noted:

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"a) The allocation of raw materials to large-scale units and small-scale units has been inevitable. For example, the allocation of non-ferrous metals to large-scale has increased from April to September, 1964, from Rs. 1419 lakhs to Rs. 1619 lakhs, while allocation to small-scale decreased from Rs. 660 lakhs to Rs. 595 lakhs over the corresponding period.

b) Allocation made to small-scale sector in case of imported steel did not even meet 1/3 of the requirements.

c) Small-scale industries have been allocated less of free foreign exchange for importing steel during the licencing period of April-September, 1964.

d) ....."³

Actually, the major impediment to growth in the small-scale sector is shortage of raw materials and infrastructural inputs. While in the large-scale sector where individual allocation is made, in accordance to the plant capacity, the small-scale sector gets a quota as a whole. It is a common experience that the critical inputs like coal coke, pig iron and steel which are always in short supply, have to be allocated to the small-scale sector, and the large industries try to manage to get the major share.

The small-scale industry contributes about 40 percent of the country's industrial production but it gets only 10 percent of total allocation of raw materials.⁴

⁴ The Economic Times, New Delhi, Wednesday, January 30, 1985, p. II.
The Estimate Committee of Parliament has expressed its dissatisfaction over the fact that small-scale industries, which had been assigned an increasingly important role in the plans, for achieving wider employment opportunities, were suffering from chronic shortage of essential raw materials.

In the Fourteenth Report of the Ministry of Industries, the committee has recommended that, considering the small-scale sector's contribution to industrial production and national economy, its raw materials requirements should be given the highest priority. According to the committee, the government has not been able to assess the demands of the small-scale sector. It has, therefore, called upon the government to evolve a mechanism for a demand survey of the sector, at least as far as, scarce raw materials are concerned. 5

The Report of 'Estimate Committee', on small-scale industries prepared during the year 1980-81, is self-explanatory on the situation of raw materials supply in small-scale industry;

"If with such low level of raw materials supply, the small-sector could achieve a production worth Rs. 21,000 crores (32 percent of total production) make exports worth Rs. 21,000 crores (16 percent of total exports) and provide employment to 70 lakh persons. The full potential of the sector is not difficult to visualise if their raw materials need are met in full." 6


6. The Economic Times, New Delhi, January 30, 1985, p. II.
3.1.2.1 Price of Raw Materials

Another problem has been the fluctuation of prices, which has affected, particularly, the artisan type units adversely as they lack holding capacity. The availability of raw materials has also been among the important factors responsible for under-utilisation of capacity of the traditional and small industries sector.7

Small-scale industries, because of their smallness and weak financial position have to utilise the services of middlemen to get raw materials on credit. Such an arrangement, however, results in higher costs and is particularly disadvantageous when, raw materials are imported. Due to profit margins of the middlemen, the cost will be higher. Their meagre resources induce, small-scale industrialists to use cheap and inferior materials, which naturally affects the quality of their finished products. Moreover, the irregular supply of certain raw materials adversely affects their production programme.

3.1.2.2 Under-utilisation of Capacity

Although, the success achieved in this sector stems from a number of factors, marked improvement in availability of raw materials, both indigenous and imported is one of the main factors. But, still because of the shortage of critical raw materials and power, there is a gross under-utilisation of capacity in this sector, leading to widespread sickness in this sector.8

7. Government of India, Sixth Five Year Plan, Para : 12.28
8. The Economic Times, New Delhi, October 2, 1985, p. V.
According to the study of selected small-scale industrial units:

"It needs to be mentioned here that in most of the cases the enterprises were operating well below capacity for several reasons. An analysis of utilisation of capacity shows that in a majority of the cases in 1969-70, the units were operating below 50 percent of installed capacity. In hardly 15 percent of small-scale units was utilisation above 80 percent of installed capacity.

The casual factors mentioned in this connection were many. Important among them were shortage of raw materials, indigenous and imported, inadequate finance, lack of demand and obsolete equipment. Shortage of raw materials was given the pride of place in most of the industry categories."

3.1.2.3 Provision of Raw Materials

The actual availability of the scarce raw materials, inspite of the allotments given by the government to this sector can be difficult for the small entrepreneurs and, infact, it is one of the vexing problems of the small-scale units.

The general policy in the past regarding the supply and distribution of raw materials to the small-scale sector has been to earmark specified quantities of raw materials from major suppliers and to route them through the State Small Industries Development Corporation for distribution to the small-scale and cottage industries. There has been selective relaxation, in the import policy in favour of the small-scale sector for the import of certain raw materials both canalised as well as other items. Despite of various government measures, the small-scale sector has been facing

considerable difficulties on account of the overall shortage of essential raw materials and intermediates. In actual practice, the sector tends to get more or less a 'residuary' treatment in raw materials distribution. In some cases the quality has also been unsatisfactory.

Timely availability of raw materials in sufficient quantity is one of the basic necessity for the survival of small-scale industries. For this purpose the Small Industries Development Organisation has been maintaining close liaison with the concerned Ministries and other organisations. Various measures initiated and achievements in this field are described as; Value of imported licences issued to small-scale units during 1979-80 in respect of raw materials, components and spares had been Rs. 211.59 crores. Against this, the value of import licences issued to small-scale units for five months, (April to September, 1980) had been Rs. 82.82 crores, the corresponding figures during the previous year being Rs. 102.98 crores. The fall has been primarily due to progressive canalisation of some of the raw materials required by the units in the small-scale sector as also expansion of Open General Licence list covering some important items.¹⁰

And further, the value of imported licences issued to small-scale units during 1981-82 for the import of raw materials, components, and spares had been Rs. 232.99 crores as against Rs. 215.97 crores during 1980-81. The value of such licences issued during the first six months of the year (April 1982 to September, 1982) amounted to Rs. 131.79 crores against Rs. 98.87 crores during corresponding period.

in the previous year.\textsuperscript{11}

The position of supply of indigenous raw materials to small-scale units has improved and the normal supplies to small-scale units has been resumed. For example, the small-scale industry corporations, were given a subsidy varying from Rs. 100 per tonne, in Delhi, to Rs. 160 per tonne, in other states, for meeting their carrying costs. Besides, a further sum of Rs. 40 per tonne is given to the corporations to be passed on to the small-scale units as a concession. In other words, the small-scale Industries would get the metal from Small-Scale Industries Corporations, at the rate lower by Rs. 40 per tonne than charged from other industrial users. The total amount of steel supplied by the corporations to the small-scale units, during last few years are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Allocations</th>
<th>Supplies (SSICs)</th>
<th>Direct supplies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982-83</td>
<td>6,63,600</td>
<td>1,72,015</td>
<td>10,22,300</td>
</tr>
<tr>
<td>1983-84</td>
<td>5,66,000</td>
<td>1,09,780</td>
<td>10,91,200</td>
</tr>
<tr>
<td>1984-85</td>
<td>5,29,214</td>
<td>2,26,946</td>
<td>9,06,900</td>
</tr>
<tr>
<td>1985-86</td>
<td>5,27,696</td>
<td>1,78,643</td>
<td>4,57,000</td>
</tr>
</tbody>
</table>

(April to September 85)


\textsuperscript{11} SIDO, Report 1980-81, p. 97.
The allocation and supplies of pig iron, made to small-scale industrial units for the last 3 years is as follows:

Table 3.2: Total Quantum of Pig Iron Supplied to SSI

<table>
<thead>
<tr>
<th>Year</th>
<th>Allocations (m.T.)</th>
<th>Supplies (SSIC)s (m.T.)</th>
<th>Direct supplies (m.T.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982-83</td>
<td>5,84,000</td>
<td>4,17,319</td>
<td>N.A.</td>
</tr>
<tr>
<td>1983-84</td>
<td>5,12,300</td>
<td>4,17,941</td>
<td>89,600</td>
</tr>
<tr>
<td>1984-85</td>
<td>7,38,748</td>
<td>2,10,815</td>
<td>2,72,300</td>
</tr>
<tr>
<td>1985-86</td>
<td>5,57,770</td>
<td>2,39,171</td>
<td>3,71,3920</td>
</tr>
</tbody>
</table>


The allocation and supplies of E.C. Grade Alluminium during the last 3 or 4 years are as follows:

Table 3.3: Total Quantum of E.C. Grade Alluminium supplied to SSI

<table>
<thead>
<tr>
<th>Year</th>
<th>Allocations (in Tonnes)</th>
<th>Supplies (in Tonnes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982-83</td>
<td>84,505</td>
<td>28,889</td>
</tr>
<tr>
<td>1983-84</td>
<td>75,807</td>
<td>43,488</td>
</tr>
<tr>
<td>1984-85</td>
<td>94,436</td>
<td>31,366</td>
</tr>
<tr>
<td>1985-86</td>
<td>11,47,199</td>
<td>43,410</td>
</tr>
</tbody>
</table>

Table 3.4: Number and Value of Import Licences Issued to Small-scale and DGTD Units.

<table>
<thead>
<tr>
<th>Year</th>
<th>Small-Scale Units</th>
<th></th>
<th>DGTD Units</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of Import Licence</td>
<td>Value (Rs., crores)</td>
<td>No. of Import Licence</td>
<td>Value (Rs., crores)</td>
</tr>
<tr>
<td>1980-81</td>
<td>7,664</td>
<td>215.97</td>
<td>3,138</td>
<td>429.28</td>
</tr>
<tr>
<td>1981-82</td>
<td>7,458</td>
<td>232.99</td>
<td>3,110</td>
<td>641.55</td>
</tr>
<tr>
<td>1982-83</td>
<td>6,277</td>
<td>252.08</td>
<td>3,119</td>
<td>707.86</td>
</tr>
<tr>
<td>1983-84</td>
<td>4,909</td>
<td>215.68</td>
<td>2,954</td>
<td>562.17</td>
</tr>
<tr>
<td>1984-85</td>
<td>5,980</td>
<td>457.98</td>
<td>4,224</td>
<td>1,019.65</td>
</tr>
<tr>
<td>1985-86</td>
<td>2,493</td>
<td>115.73</td>
<td>3,308</td>
<td>1,133.45</td>
</tr>
</tbody>
</table>


The value of import licence issued to small-scale industrial units during 1984-85 (April to June 84) for raw materials, components and spares had been Rs. 50.85 crores (as against Rs. 41.40 crores for the period April to June 1983).

The value of import licence issued to small-scale industrial units during 1980-81 to 1985-86 for raw materials, components and spares, (inspite of the wishes of the government to see that small-scale industrial sector gets due share of scarce raw materials in time so that their production, growth and progress is not hampered); does not show any improvement as such. During 1980-81 the value of import licence to small-scale units was Rs. 215.97 crores compared to Rs. 457.98 crores in 1984-85, which is almost double. It suddenly
decreased to Rs. 115.73 crores during 1985-86. The decrease in the value of import licence might be due to the import policy of the small-scale industries. During 1985-86 the import policy regarding raw materials, components and spares has undergone some changes, which are:

1. That import of as many as 53 items have been decanalised out of which 17 have been shifted to Open General List, 20 items to the Limited Permissible List and 16 to Restricted List

2. For meeting the requirements of machinery for modernisation and export production, 20 items of Industrial Machinery have been included in the list of Capital Goods allowed under Open General List

3. Import Policy for computer system has been liberalised

4. Showing regard to indigenous availability seven items of raw materials and components have been shifted from limited permissible list to restricted list and 67 items have been shifted from Open General List to Limited Permissible List

5. Etc...12

Table 3.4 shows the number and value of import licences issued to small-scale industries from 1980-81 to 1985-86.

3.1.2.3.1 Role of National Small Industries Corporation

The small-scale units generally have financial constraints in importing and procuring indigenous raw materials, components and consumables in bulk at economical prices resulting in either higher cost of production or breakage of production cycle for want of

necessary inputs. To mitigate this hardship, the corporation has devised a unique Raw Material Assistance Scheme to help the small-scale units to import raw materials, components etc; by opening Foreign Letters of Credit on their behalf and also by opening Inland Letter of Credit in favour of concerned agencies supplying raw materials. Items so procured are kept in the godown of the units or that of the State Central Ware Housing Corporation. The system enables the small-scale units to draw out the material in small lots as per their requirements and fund availability. The scheme has found favour with a number of small-scale units as they have been able to procure material at competitive price as and when required without disrupting their production cycle.

The scheme for import of raw materials, parts and components, for and on behalf of small scale units, registered a phenomenal growth in 1985-86. Under the scheme, the corporation imports raw materials under its own additional licences as well as OGL items as agent of end users. During 1985-86, the corporation supplied raw material worth Rs. 15 crores as against Rs. 9.54 crores in 1984-85. The corporation also extends package assistance consisting of supply of raw materials as well as marketing of end products to the same units.13

3.1.3 Credit Needs and Financial Problems of Small-scale Industries

Ranking next in importance to raw materials is inadequate credit facilities. Small units, as it is well-known, are not exclusively

dependent on government assistance. Most of these units owe their origin to the spurt in the demand of their products either in the local, neighbouring and distant markets, or in a combination of markets. Generally speaking, the demand starts initially from the local market or neighbouring markets and then is picked up from the regional and distant markets.

The small units depend more on their own funds and borrowed funds from non-government sectors, because of the fact that institutional lenders like banks and government financial corporations are generally reluctant to advance money to these small units, since they have yet to establish themselves.

The credit needs of the small industrialists can broadly be grouped into the following two;

1. Long-term finance for purchase of machinery and equipment, and

2. Short-term finance to provide working capital.

The former is generally generated from own resources and assistance from term lending institutions. These small units are not in a position to offer guarantee required by the banking sector. Although, small loans can be raised from government agencies, the procedures are so cumbersome that most of the entrepreneurs hesitate to make use of these facilities.
The shortage of funds makes it difficult for small-scale industrialists to install modern machinery and tools and to maintain well organised and fully equipped factories. Moreover, they can not buy and store good quality raw materials, stock their finished products, have any sales organisation of their own or furnish security deposits, whenever necessary.

According to the study of selected small-scale industries;

"Small-scale units are aware of the institutional facilities available for provision of long-term finance. But the common complaint in this connection is related to the various procedural formalities one has to undergo and the incordinate delays in getting loans sanctioned."\(^{14}\)

The problem which frequently occurred with long-term financial assistance was in the terms of re-payment which generally commenced one year after the sanctioning of the loan. Hence, the small-scale units felt that they were not normally in a position to start paying the installments within twelve months.\(^{15}\) They even felt that, there is no proper post-allocation supervision in case of most of the sanctioned loans. With the result, the financial institutions are not even aware of the difficulties faced by the units. Hence, some of the units preferred to avoid these institutions and instead approach the local agencies for obtaining financial assistance. The industrialists preferred to get assistance, if possible, from the banks even at slightly higher interest rates.

For their working capital most of the small-scale units depend on


\(^{15}\) Ibid.
the commercial banks and non-institutional sources. When they sell on credit basis, they are mostly in need of funds to carry on their operations. In case they are required to have large stocks of raw material, this will pose further problems for them.

3.1.3.1 **Problems of Financial Institutions**

It would be proper to study the problems faced by financial institutions in their dealings with small-scale industries. Some of the difficulties for granting loans to small-scale units are;

1. The applications from small-scale units are generally incomplete and vague. Moreover, considerable reluctance is shown by a majority of the applicants to disclose full fact of their affairs or to take the corporations into their confidence.

2. The applications relate to a variety of small-scale industries. Statistical data regarding the country's demand, installed capacity, actual production etc., regarding their products are seldom available. In absence of such information, it is difficult for the financial institutions to make a proper assessment of the scope and prospects of an industry.

3. The demands and the loans drawn by small-scale units, in majority of the cases, is for working capital rather than block assets.

4. The corporations accept only fixed assets as security for loans and small units do not possess sufficient fixed assets.
to secure the loans required by them.

5. In many cases, the factory is located in rented premises and the applications are unable to secure long-term leases to cover the period of loans.

6. Small-scale units do not generally maintain adequate accounts nor is any reliable record of their financial positions available, and their accounts are seldom audited. It is, therefore, difficult to ascertain the real financial positions of the applicant concerned.

7. Owners of the small-scale units are little known in the markets and it is extremely difficult to obtain a reliable information regarding their business integrity. Their resources are also limited and their personal guarantee is, in many cases, of doubtful value.

8. Prospective borrowers are unable to produce, in some cases, valid documents evidencing their title to the properties offered as security.16

3.1.3.2 Financial Assistance

One of the crucial problems faced by small and medium enterprises is the inadequacy of financial resources. In case of large scale enterprises, because of their fame and status; financial resources are raised more conveniently through their own equity as well as from the participation of public including banks and investment institutions. As against this, small enterprises, which are generally proprietary

concerns or private limited companies, are not in a position to raise their financial equity from contribution of banks and financial institutions.

3.1.3.2.1 Role of Commercial Banks

Financial assistance to the small-scale industrial units, in the form of loans, in India, is being mainly provided by the commercial banks and the state financial corporations. The commercial banks are the primary source of finance for meeting the working capital requirements of small-scale units. In order to devote special attention to certain categories of borrowers in the economy, the Reserve Bank of India has identified certain sectors and included them in the priority sector for purposes of lending by commercial banks. The small-scale industrial sector is one of the sectors within the priority sector. The Reserve Bank of India had advised the banks to ensure that by the end of 1985 at least 40 percent of their total advances are extended to the priority sector. In order to give special impetus to the improvement of standard of living of the weaker sections, banks had been directed to ensure that by the end of March, 1985, advances to weaker sections should reach the level of 25 percent of total bank credit. The weaker section, for lending purposes, includes artisans irrespective of location and small-scale industrial activity, manufacturing, processing, preservation and servicing in villages and small towns with population not exceeding 20,000 and involving the utilisation of locally available industrial resources or human skills where the individual credit requirement does not exceed Rs. 25,000. The total priority sector advances of public sector banks,
at the end of December, 1985, was about Rs. 20,544 crores. The percentage share of small-scale industries in the total outstandings to the priority sector was about 36 percent. The share of small-scale sector in total outstandings is about 14 percent. Advances by public sector banks to the small-scale industries increased from Rs. 3,136 crores in 1980, to 7,315 crores in 1985. Over the same period the number of small scale units assisted by these banks increased from 794 thousand to 1,564 thousand.

The flow of credit to small-scale sector has been quite significant as may be seen from the table given below;

Table 3.5 Advances by scheduled commercial banks to priority sector as at the end of December (Rs. in crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Accounts</th>
<th>Amount outstanding</th>
<th>Total Amount advanced to priority sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>794</td>
<td>3,136</td>
<td>8,327</td>
</tr>
<tr>
<td>1981</td>
<td>961</td>
<td>3,953</td>
<td>10,803</td>
</tr>
<tr>
<td>1982</td>
<td>1,050</td>
<td>4,464</td>
<td>12,342</td>
</tr>
<tr>
<td>1983</td>
<td>1,244</td>
<td>5,389</td>
<td>14,882</td>
</tr>
<tr>
<td>1984</td>
<td>1,455</td>
<td>6,537</td>
<td>18,330</td>
</tr>
<tr>
<td>1985</td>
<td>1,564</td>
<td>7,315</td>
<td>20,544</td>
</tr>
</tbody>
</table>

Source: RBI, "SSI, Facts and Figures", SIDO, p.11.
Loans to small-scale units by the commercial banks are being provided at concessional rate of interest. The maximum rate of interest charged on short-term advances upto Rs. 2 lakhs is 14 percent and on advances between Rs. 2 lakhs and Rs. 25 lakhs is 16.5 percent as against the normal rate of interest of 18 percent.

The bigger borrowers in the small-scale sector, i.e., those given advances of amount greater than Rs. 25 lakhs, are charged with the normal rate of interest, in order to meet credit needs of large, medium as well as small enterprises. It was, therefore, felt necessary to supplement the work of Industrial Finance Corporation of India (a Central Government institution set up for meeting the credit and capital investment needs of large corporate bodies) by setting up State Financial Corporations in various states. Accordingly, state financial corporations were established under a separate Act called the State Financial Corporation Act, 1951. These corporations which now total 18, constitutes the most important source of long-term credit to small and medium industries.

During the last few years, the state financial corporations have been increasingly sanctioning a large part of their lending to small scale enterprises. The table below shows that the flow of financial assistance by State Financial Corporation during 1978-85 is particularly to small-scale industries;

Table 3.6: Interest Rate Structure of Commercial Banks for SSI as on 1985-86

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Type of Loans</th>
<th>Rate of Interest (% per annum)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Composite Loan upto Rs. 25,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>a) Backward Areas</td>
<td>10.00</td>
</tr>
<tr>
<td></td>
<td>b) Other areas</td>
<td>12.00</td>
</tr>
<tr>
<td>2.</td>
<td>Short-term Advances</td>
<td></td>
</tr>
<tr>
<td></td>
<td>a) Upto Rs. 2 lakhs (maximum)</td>
<td>14.00</td>
</tr>
<tr>
<td></td>
<td>b) Over Rs. 2 lakhs but upto Rs. 25 lakhs (maximum)</td>
<td>16.00</td>
</tr>
<tr>
<td></td>
<td>c) Above Rs. 25 lakhs (maximum)</td>
<td>17.00</td>
</tr>
<tr>
<td>3.</td>
<td>Term Loans</td>
<td></td>
</tr>
<tr>
<td></td>
<td>a) Backward Areas</td>
<td>12.50</td>
</tr>
<tr>
<td></td>
<td>b) Other Areas</td>
<td>13.50</td>
</tr>
</tbody>
</table>

Source: R.B.I., SIDO, 1985-86, p.145
Table 3.7: Financial Assistance by State Financial Corporations to SSI

(Rs. in millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of units</th>
<th>Sanctioned</th>
<th>Disbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978-79</td>
<td>7,248</td>
<td>118.31</td>
<td>82.17</td>
</tr>
<tr>
<td>1979-80</td>
<td>15,278</td>
<td>166.39</td>
<td>114.08</td>
</tr>
<tr>
<td>1980-81</td>
<td>26,447</td>
<td>254.41</td>
<td>153.39</td>
</tr>
<tr>
<td>1981-82</td>
<td>28,178</td>
<td>363.47</td>
<td>210.71</td>
</tr>
<tr>
<td>1982-83</td>
<td>28,682</td>
<td>459.66</td>
<td>291.10</td>
</tr>
<tr>
<td>1983-84</td>
<td>24,796</td>
<td>461.02</td>
<td>308.24</td>
</tr>
<tr>
<td>1984-85</td>
<td>24,551</td>
<td>539.71</td>
<td>368.68</td>
</tr>
</tbody>
</table>

Source: Industrial Development Bank of India, Quoted by, SIDO, 1985-86, p. 146.

3.1.3.2.2 Composite Loan Scheme

This scheme was introduced by the Reserve Bank of India in 1979. Under this scheme borrowers in the village and cottage industries sector get composite loan up to Rs. 25,000 through the State Financial Corporation to meet their requirements of working capital including small machinery, tools and equipment. Payment period ranges between seven to ten years and even more with an initial moratorium period of 12 to 18 months, sanctioned to the borrowers. There is no insistence on margin for this category of borrowers, with a ceiling of 10 percent in other areas, on the rate of interest chargeable on loans under the Composite Loan Scheme Assistance by the state financial corporations. Under this scheme 21,000 borrowers drew loans amounting to Rs. 245 million, till March 1981.
3.1.3.2. 3 Role of Industrial Development Bank of India

The Industrial Development Bank of India has been playing a significant role in promoting small-scale industries, mainly through its Refinance scheme. The State Financial Corporations, state industrial development corporations or the loan given by banks to the small or medium sized units and, in turn, get refinanced by the Industrial Development Bank of India. The Industrial Development Bank of India provides 100 percent refinance irrespective of loans granted under the Composite Loan Scheme and upto 90 percent in case of small-scale industrial units.

Refinance assistance is provided on concessional rates of interest. Assistance sanctioned towards refinance of industrial loans to small-scale industries by Industrial Development Bank of India was about Rs. 5335 million in 1981-82 as per details given in table below:

Table 3.8 : Refinance and Rediscounting Assistance to SSI by Industrial Development Bank of India.

<table>
<thead>
<tr>
<th>Year</th>
<th>Refinance Industrial Loans</th>
<th>Bill Rediscounted</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sanctions</td>
<td>Disbursement</td>
</tr>
<tr>
<td>July-June</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1979-80</td>
<td>248.2</td>
<td>150.1</td>
</tr>
<tr>
<td>1980-81</td>
<td>283.0</td>
<td>174.0</td>
</tr>
<tr>
<td>1981-82</td>
<td>349.0</td>
<td>228.3</td>
</tr>
<tr>
<td>1982-83</td>
<td>485.2</td>
<td>301.1</td>
</tr>
<tr>
<td>1983-84</td>
<td>415.1</td>
<td>338.6</td>
</tr>
<tr>
<td>1984-85</td>
<td>607.0</td>
<td>387.8</td>
</tr>
</tbody>
</table>

FIG.3.1. REDISCOUNTING ASSISTANCE PROVIDED TO SMALL-SCALE INDUSTRIES BY INDUSTRIAL DEVELOPMENT BANK OF INDIA
The State Financial Corporation and banks have introduced a special scheme for providing financial assistance on soft terms to projects promoted by self-employed technicians entrepreneurs. Industrial Development Bank of India has also been providing assistance to small-scale sector through its scheme of Rediscounting of Bill/Promissory Notes arising out of the sales of indigenous machinery on deferred payment basis. The objective of the scheme is to help the manufacturer of indigenous machinery or capital equipment to boost sales of their products by offering finance to the prospective purchasers or users deferred payment facilities. The maximum amount of transaction covering a set of bills or promissory notes eligible for rediscounting is Rs. 10,000 and the maximum amount pertaining to a single purchaser is Rs. 10 million\(^{18}\) (face value of bills) over a limit which is reckoned from July 1, to June 30 of the following year. Under the Bill Rediscounting Scheme refinance assistance during 1981-82 was of the order of Rs. 671 million.

In order to help small and medium entrepreneurs in getting suitable factory accommodations, the Industrial Development Bank of India has been providing refinance assistance to state level corporations in respect of loans granted for setting up of industrial estates mainly for developing land, provision of infrastructural facilities and construction of sheds.

As a special measure to promote entrepreneurship among qualified technicians and experienced persons with meagre financial equity, the Industrial Development Bank of India has issued guidelines to state

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financial corporations for providing Seed Capital Assistance from their special class of share capital to units in the small-scale sector. The assistance is through equity or soft loan towards meeting the gap between the normal expected level of promoters' contribution as envisaged by state financial corporations, and the actual amount that a promoter could bring on his own, subject to the ceiling of 20 percent of the project cost of Rs. 0.2 million, whichever is lower. Assistance under the scheme is interest free and carries only a service charge of 1 percent per annum.

Industrial Development Bank of India is also operating another Seed Capital Scheme through the state financial corporations and small industries development corporations under which finance is given to both small and medium scale sector units, subject to a ceiling of Rs. 1.5 million per project. Assistance under this scheme is also interest free and carries only a nominal service charge of 1 percent.

For a clear demarcation of proposals involving equity type of assistance of Rs. 0.2 million or less and coming under the small-scale industries sector or ancillary sector is considered under special capital scheme and proposals, and where such assistance exceeds Rs. 0.2 million are considered under the Scheme of Seed Capital of state financial corporations. The emphasis of the scheme is to bridge the gap between the promoters, contribution required and the available equity of the promoter.

The Industrial Development Bank of India is also operating a Soft Loan Scheme for modernisation of selected industries. The object of this scheme is to provide financial assistance at concessional terms
FIG. 3.2. REFINANCE ASSISTANCE PROVIDED TO SMALL-SCALE INDUSTRIES BY INDUSTRIAL DEVELOPMENT BANK OF INDIA
to production units, to enable them to modernise their operations so as to achieve higher and more economic levels of production, and thereby improve their competitiveness in the domestic as well as international markets. Small-scale units are also eligible for assistance under this scheme provided they are registered as public or private limited companies. The assistance provided under this scheme is based on need, and as such no minimum or maximum limit for individual loans has been prescribed.

3.1.3.2.4 National Small Industries Corporation

One of the important functions of this corporation is to help small entrepreneurs in setting up industries by providing both indigenous and imported machinery and equipment on Hire-Purchase basis. The machinery is supplied on easy installments spread over a period of seven years. A noteworthy feature of this Hire-Purchase Scheme operated by the National-Small Industries Corporation is its present thrust towards development of backward areas and promotion of technocrats and entrepreneurs from weaker sections of society. This corporation has so far supplied machinery and equipment worth about Rs. 1298.51 lakhs during 1985-86 compared to Rs. 1018.69 lakhs during 1984-85.\footnote{National Small Industries Corporation, 31st Annual Report 1985-86, New Delhi, p.10.}
Table 3.9 : Value of Machinery Supplied by NSIC on Hire-Purchase Basis to Small-scale units all over the country.

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of units</th>
<th>No. of Machines delivered</th>
<th>Value of machinery delivered</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
<td>748</td>
<td>1,940</td>
<td>831.32</td>
</tr>
<tr>
<td>1981-82</td>
<td>950</td>
<td>2,706</td>
<td>1,151.76</td>
</tr>
<tr>
<td>1982-83</td>
<td>1,124</td>
<td>2,757</td>
<td>1,754.25</td>
</tr>
<tr>
<td>1983-84</td>
<td>1,195</td>
<td>3,025</td>
<td>2,156.53</td>
</tr>
<tr>
<td>1984-85</td>
<td>1,000</td>
<td>2,503</td>
<td>1,774.82</td>
</tr>
<tr>
<td>1985-86</td>
<td>1,120</td>
<td>2,836</td>
<td>2,078.64</td>
</tr>
</tbody>
</table>


As has already been mentioned, the paucity of funds has been a major factor inhibiting the growth and development of small enterprises. A number of qualified persons with necessary skill, experience and viable schemes often find it difficult to mobilise adequate financial resources towards promoters equity. The State Bank of India is operating a scheme of Equity Assistance which is interest free for its customers in the small-scale sector. The assistance provided under the scheme ranges between Rs. 5,000 and Rs. 50,000 depending upon the project cost.

The new scheme announced by the Government of India for providing self employment opportunities to educated unemployed youth has also been entrusted to District Industries Centres for implementation. The identified beneficiaries were entitled to get composite loan upto
Rs. 25,000 at 10 to 12 percent rates of interest, to run their ventures. A special feature of the scheme is that 25 percent of the loan will be paid as capital subsidy by the Government of India to the lending bank. Till March 31, 1984, the banks sanctioned loan amounting to Rs. 401.54 crores to 2,42,405 crores as against the target of 2.5 lakhs set for the year 1983-84 i.e. 97 percent of the targets had been achieved.20

The scheme was further extended for the year 1985-86, with identical targets of 2.5 lakhs. As per progress report received upto May 1986 for 1985-86 from state governments, the number of applications received is 8,56,629 and recommended 3,40,904 cases to banks. The banks sanctioned 2,17,027 cases with a credit of Rs. 410.01 crores.

A reference has already been made to Equity Schemes operated by Industrial Development Bank of India. Government is also operating a Seed Margin Money Scheme for providing equity type assistance to units in the tiny sector located in semi-urban and rural areas. The extent of assistance is 10 percent of the total investment comprising of fixed capital investment requirement or Rs. 20,000 which ever is less.

3.1.3.2.5 Equity Finance & Subsidies

To augment the financial resources available with the small and medium entrepreneurs, the states and central governments have also given a number of subsidies. An Interest Subsidy Scheme is being operated for engineering entrepreneurs under which subsidy is provided

to the extent of the difference between 7 percent rate of interest per annum and the normal rate of interest charged on loans advanced by financial institution provided the total in any case does not exceed Rs. 20,000 per annum.

One of the important objectives of the policy pursued by the Government of India is to correct regional imbalances and to secure industrialisation of backward areas of the country. Towards this end, central and state governments have been providing several incentives and subsidies to enable entrepreneurs to establish industrial undertakings in backward areas. These incentives include relief in income-tax and sales tax, subsidy on power, preference in stores purchase programme and availability of concessional finance extended through the all-India term lending institutions. Under the Government Store Purchase Programme, the units enlisted with National Small Industries Corporation secured orders for products worth Rs. 459 crores as against Rs. 353 crores in the previous year 1984-85.21

There are two more subsidy schemes namely, the outright subsidy on fixed capital investment in backward areas, and the transport subsidy. Under the scheme of outright subsidy on fixed capital investment known as the Central Investment Subsidy set up in specified backward areas are entitled to get outright grant of 15 percent of the total capital investment subject to maximum of Rs. 1.5 million.

For the purpose of Central Investment Subsidy, all the districts in the country have been divided into three categories depending upon

the extent of industrial development. The quantum of subsidy is 25 percent in category "A" districts of the investment subjected to a ceiling of Rs. 2.5 million for a single unit which is the largest amount. While for category "B" districts, it is 15 percent subject to a maximum of Rs. 1.5 million and 10 percent subject to a maximum of one million rupees in category "C" districts.

Under the Transport Subsidy Scheme, subsidy of 50 percent of the transport cost to and from, the nearest rail-head is given in certain hilly and remote areas. The object of the subsidy is to compensate losses incurred by entrepreneurs by setting up industrial ventures in remote areas which are not connected by rail-transport. Both the subsidies are actually disbursed by the states governments who later on claim the reimbursement from the Central Government.

Under the transport subsidy of Central Government in 1980-81 the sum of Rs. 3,055 lakhs had been reimbursed from the Central Government by the state governments. During the year 1986-87 this amount rose to Rs. 8,544 lakhs which is almost 2.5 times of the amount in 1980-81.

Table 3.10 shows the total reimbursement from Central Government since 1980-81.
Table 3.10: Central Investment Subsidy and Transport Subsidy.

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount given (Rs. in lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
<td>3,055.00</td>
</tr>
<tr>
<td>1981-82</td>
<td>2,000.00</td>
</tr>
<tr>
<td>1982-83</td>
<td>4,000.00</td>
</tr>
<tr>
<td>1983-84</td>
<td>5,320.00</td>
</tr>
<tr>
<td>1984-85</td>
<td>8,520.00</td>
</tr>
<tr>
<td>1985-86</td>
<td>10,000.00</td>
</tr>
<tr>
<td>1986-87</td>
<td>8,544.00</td>
</tr>
</tbody>
</table>


3.1.4 Experienced and Skilled Labour

During 1985-86, nearly 97 lakhs persons are directly employed by the small-scale sector, and they make up almost 38 percent of the country's total industrial employment. It has a share of 40 percent in the industrial output. The total full-time and part-time employment in small scale and village industries is estimated at over 315 lakhs persons within the manufacturing sector. This represents, about 80 percent of the total industrial employment. The modern small-scale sector with nearly 14.10 lakhs registered and unregistered units, provided gainful employment, which is the biggest single group in the employment generation.

22. Ibid, p.5.
These are some of the facts related to the employment condition of the small-scale industries. It is important to find out that, with such impressive performance, do they have any problem regarding the labour condition or not?

There is general scarcity of technical and skilled workers. The shortage of skilled labour can be attributed to severe competition from large-scale units. They offer comparatively higher wages and provide better job securities. Therefore, there is a need to attract skilled labour to the small-scale sector as well. For this matter, there should be some sort of incentives, such as accommodations and higher wages. However, providing accommodation is beyond the means of the small industrialists and they have to rely on giving better wages.

Continuously rising labour cost is a problem for small industries. This problem is becoming severe as the small industries are unable to increase their production in view of the other problems e.g. scarcity of raw materials, non-availability of sophisticated machinery (which has already been discussed earlier), etc. Labour costs are rising due to the overall conditions of the economy. This increase is without simultaneous increase in the volume of production, besides reducing the project margin of the industries and increasing the costs of products rendering them incompetent in the indigenous as well as international markets.

There is indeed a great need to improve the skill base of small firms so as to upgrade the level of technical and general education of workers. Apart from improvement of theoretical instruction, efforts are required to up-date practical experience in co-operation with
large industry including public sector undertakings. A study should be carried out to determine the present position to assess the availability of trained personnel for small industries, needs of the future and in ways the voluntary efforts can be mobilised for the purpose.  

Actually, small industrialists and industrial units cannot normally afford to engage the services of skilled technicians or business consultants. In view of the importance of the provision of such facilities, the Government of India has set up an Industrial Extension service as a direct servicing agency for various small scale industries. The technical services and advices extended through this agency are free of charge. Of course, some of the government programmes in this regard has already been discussed, and some other measures which have not been discussed earlier shall be included in this section.

Some of the important functions of Extension Service are as follows;

(A) They give advice as well as demonstration on proposed technical processes and use of modern machinery and equipment.

(B) Market research is undertaken and advice is given on adaptation of production to suit different markets. They act as information centre for such industries and prepare model industries scheme for the guidance of small industrialists.

Research on questions like proper use of raw materials improved designs of machinery, etc., is undertaken. Assistance is also given on selection and testing of proper raw materials and in the removal of manufacturing defects, besides suggesting measures for lowering the costs and improvement of quality.²⁴

The Central Institute of Tools Design Hyderabad, is a society set up by Government of India in 1968, with the assistance of United Nation Development Programme (UNDP) and International Labour Organisation (ILO) to serve the needs of small industries by improving the training of technical personnel in the design and manufacture of tools, etc. The main objectives of the Institute are;

- training of technical personnel, preferably from small-scale industries in the design and manufacture of tools.

- provision of advisory, consultancy and common service facilities to small-scale units including assistance in the design and development of tools for various process.

- Recommending measures to standardise tools, tooling elements, components, and other tools.²⁵

The Institute is conducting regular and short-term technical courses mainly for small industries of the country.

²⁴. RBI, Op., Cit, p.76
The details of job works undertaken and consultancy services provided by the centre during 1981-83 are given in the following tables;

Table 3.11 : Job works and Consultancy Services provided by Central Institute of Tools Design.

<table>
<thead>
<tr>
<th>Year</th>
<th>SSI</th>
<th>Others</th>
<th>Total</th>
<th>Amount (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job works</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1981-82</td>
<td>309</td>
<td>107</td>
<td>416</td>
<td>9,43,801</td>
</tr>
<tr>
<td>1982-83</td>
<td>207</td>
<td>60</td>
<td>267</td>
<td>5,49,000</td>
</tr>
<tr>
<td>(upto 31.12.82)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Anticipated Achievement (upto March, 1983)</td>
<td>400</td>
<td>100</td>
<td>500</td>
<td>12,00,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of consultancy and advisory services rendered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consultancy Services</td>
<td></td>
</tr>
<tr>
<td>1981-82</td>
<td>2,643</td>
</tr>
<tr>
<td>1982-83</td>
<td>1,317</td>
</tr>
<tr>
<td>(upto 31.12.82)</td>
<td></td>
</tr>
<tr>
<td>Anticipated Achievement (upto March, 1983)</td>
<td>2,200</td>
</tr>
</tbody>
</table>

In this respect, some of the services rendered to the small-scale units, by different institutions have been discussed in the previous section.

3.1.5 Technology and Technical Services

Technology is the basis of all industries. One of the major handicaps of the small-scale sector has been the absence of the latest technology which alone can ensure quality and a high rate of productivity. To remain in the market, to lower the cost of production and to pass the benefits to the customers; The small industrialist has to keep itself abreast of developments in technology, otherwise, he may soon find himself squeezed out of the business.

Although, lately there has been much improvement but modernisation and upgradation of technology needs much more attention. Even so, the quality of goods produced in many units, leaves much to be desired and the problem is compounded by the lack of standardisation. If the small-scale industry is to make effective contribution to the growth and diversification of the economy, modernisation and rigid quality control, assume special urgency.

According to Sixth Five Year Plan;

"Low levels of technology resulting in poor productivity and inadequate returns have continued to characterise the traditional industries sector. Coupled with this, the problems of obtaining raw materials of desirable quality at reasonable price and products at fair price and lack of marketing arrangements for selling their products at fair prices have deprived the artisans a good part of the earnings which should have accrued to them."

26. Government of India, Sixth Five Year Plan, Para: 12.6
It is even advisable for the small entrepreneurs to give a lead in research and development, which may not always be very expensive. This can be achieved by even without the facility of sophisticated laboratory and gadgets and by using his intellectual capabilities and utilising the knowledge gained by others, provided that he is development - oriented and is capable of innovation.

Another point is that, the progress of ancillary industry is poor. At present the ancillary units contribute only a negligible share in the total output of the small-scale industry. One estimate is that the ancillary industry produces barely $\frac{1}{4}$ percent of the total industrial output.\(^{27}\) A reliable data on the aggregate output of the ancillary industry is not available, hence discussion in this respect is difficult. If the ancillary relationships were sustained during the growth of large industry, this would ensure simultaneous growth and modernisation of small industry.

The study had been conducted by National Council of Applied Economic Research, to find out the problems and give appropriate suggestions to remove their difficulties. Therefore 159 units distributed over 22 industrial groups selected in different parts of the country were considered for sample study.

According to the study of these selected small-scale industries,\(^{28}\) it was found that most of the entrepreneurs were equipped with the requisite technical skills or had required them over

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time. Most of them were also aware of the institutional facilities available for providing technical assistance. But the general feeling expressed was that the institution failed to provide the required technical knowledge for the different types of operations involved as the personnel of these institutions were more of a general character and that the specialised assistance required was hard to come by.

It was, however, mentioned that the small units could not afford to employ professional people, of high standard, to maintain quality control. In such cases if common service facilities could be developed it would be of great help.

Technology development in small-scale industries has also been emphasised in Seventh Five Year Plan;

Technology development in small-scale industries has also been emphasised in Seventh Five Year Plan. The Seventh Five Year Plan would focus attention on upgradation of technology by strengthening certain tooling and workshop facilities for development of prototype design, new products and processes, to revamp the organisational structure for the development of this sector, to promote the disposal of industries to the less developed areas and impart higher levels of training.

Small-scale industries are being assisted by Small Industries Development Organisation (SIDO) by providing expert advice on matters relating to technology and modernisation through its network of institutes and extension centres all over the country. Besides, Process and Product Development, Centres are also being set up for technology development, adaptation and transfer of appropriate

29. Government of India, Seventh Five Year Plan, Para:4.61
technologies for small-scale industries and also for providing consultancy services on such areas. This has been possible through its net work of twenty five Small Industries Services Institutes, thirty two Branch Institutes, thirty nine Extension Centres, four Regional Testing Centres, three Product and Process Development Centres, two Foot wear Training Centres, and five Production Centres as in the year 1985-86. Common facility services are also provided to the small-scale industries attached to the Institutes of Extension Centres.

Small Industries Development Organisation brings out technical literature like model schemes, blue prints, drawings, etc., for the benefit of existing and prospective entrepreneurs. During 1980-81, about 26,000 technical schemes, blue prints, drawings, design and prototypes were supplied to the entrepreneurs. 30

Modernisation programme involved an integrated approach, as it was felt that tackling and solving individual problems connected with modernisation would not be possible due to the prevailing imbalances in the production set up. To obtain optimum results, a package programme was considered necessary. The basic aim of modernisation programme was, therefore, to achieve over all production efficiency and keep the small scale industries abreast with the latest information on production processes, product design technical development, training facilities through provision of an effective technical consultancy services and other forms of assistance. The

30. SIDO, 1980-81, Report, p.37
programme of modernisation of selected industries\textsuperscript{31} was initiated in 1975-76. Features of the programme were;

(a) Modernisation of management techniques including modernisation of attitudes and skills of personnel at all levels.
(b) Modernisation of products in terms of design standardisation etc.,
(c) Modernisation of organisation structure,
(d) Modernisation of technology in the sense of identification and use of low cost technology which is at the same time consistent with economy, efficiency and quality, and
(e) Modernisation of machinery and equipment.\textsuperscript{32}

The programme involves two major tasks;

I - To conduct motivational contact programmes through seminars, workshops, industrial clinics and modernisation media etc. It is expected that small industries would be motivated to modernise the units voluntarily, through these.

II - To conduct intensive and quick inplant studies for selected small-scale units and to assist them in implementing the suggestions made during studies.

During 1982-83 it was decided to complete sixty inplant studies, fifteen industry clinics, and five modernisation guides.\textsuperscript{33}

\begin{flushright}
\textsuperscript{31} SIDO, 1979-79, Report, p.56
\textsuperscript{32} Ibid, p.65.
\textsuperscript{33} SIDO, 1982-83, Report, p.26
\end{flushright}
With the view to orient the small industries to the latest techniques of production and encouraging the growth of viable units through provision of institutional testing, designing and training facilities; a number of specialised institutions have been set up. The brief activities of these Institutes are as follows;

Four Regional Testing Centres have been set up to provide testing facilities and assistance to the small-scale units to improve the quality of their products.

The Central Tool Room and Training Centre, Calcutta, has been established as a Government of India Society, with the assistance of Danish International Development Agency.

The aims and objectives of the centre are;

(1) Production of sophisticated tools preferably for small-scale industries,

(2) Provision of common facilities in machinery and heat treatment,

(3) Implant of training in the fields of tool making and other allied engineering trades,

(4) Provision of advisory and consultancy facilities for design and development of tools.

A Tool Room and Training Centre was set up in Ludhiana, in collaboration with the Government of Federal Republic of Germany, to cater to the needs of small-scale units located in the northern region.
Realising the need for Research and Development activities for ensuring smooth growth of hand tools, a Hand Tool Institute is being set up, at Jullundhar, for helping small-scale units.

3.1.6 Other Problems

Small-scale units are facing some other problems as well. In some cases they are even constraints to their growth and they might be sometimes a cause for the small-scale units sickness. These problems include power shortage, space for building and transportation etc..

The problem of power shortage is becoming acute day by day. The shortage of power supply in certain places, ever changing timings of supply and high rates at which power is supplied, lead to underutilisation of installed capacity and raises the cost of production.

Many of the small-scale units are located in old, congested, poorly lit and ill-ventilated premises, in crowded residential localities which not only affect the health of workers in the long-run but also affects the efficiency of production. The housing of units in such centres created difficulties regarding availability of power, proper installation of machinery etc..

Difficulties of transport are not peculiar to some units and these are experienced by all industries. Their severity, however, is felt more by smaller units as they have to depend on regular supplies of raw materials and quick distribution of finished goods because they cannot afford to maintain large stocks. Delay in transport locks up the funds for a longer time raising interests cost.
3.1.7 **Industrial Estates**

In order to obviate these difficulties and to encourage the entrepreneurs, the Industrial Estates Programme was started in India during the year 1955. The major objectives of the programme were to:

1. Facilitate the growth of small-scale industries by providing all the essential facilities,

2. Shift the small-scale industries from congested areas to better premises, to increase their productivity,

3. Achieve decentralised industrial development in small towns and villages,

4. Assist the ancillary industries in the townships surrounding major industrial undertakings, both in public and private sector.  

In planning estates, considerable attention is being given to meet the special needs of small industrialists. The so called nursery or "nest" factories are tailored to meet the traditional space requirements of small enterprises as they move from one growth phase to another. Thus, an industrial estate, which provides factory building of different sizes, also serves to foster the growth of its enterprises.

Initially, the main emphasis of this programme was on the development of small-scale industries by providing suitable factory

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34. SIDO, 1979-80, Report, p.127

accommodation and other facilities necessary for their efficient working. The need was thus realised for making the Industrial Estates Programme an instrument for developing small-scale industries in relatively under-developed areas. Thus, in the late 60's the main thrust of programme was shifted to setting up industrial estates in backward districts, smaller towns and rural areas.

More recently, provisions are made in the Five Year Plans for seed capital and margin money for the state industrial development corporations to enable them to obtain institutional finance for establishment of industrial areas and development of industrial estates.

Though, the Industrial Estates Programme was sponsored by the Central Government, its role was only to guide the state governments in laying down policies and to assist them by earmarking funds for its implementation and monitoring.

The total expenditure on Industrial Estates Programme by the end of Fifth Five Year Plan in March 1978, amounted to Rs. 7770.00 million. This excluded the assistance received from Life Insurance Corporation, Nationalised Banks and other financial institutions. 36

During Sixth Five Year Plan, a provision of Rs. 616.10 crores has been made for small-scale industries including industrial estates. Out of this, a sum of Rs. 6.70 crores has been spent on industrial estates 37 during 1980-81 and by the end of 1984 the expenditure incurred was Rs. 43.03 crores.


37. Ibid, p.130
The progress achieved by the programme till the end of March 1979 was that a total of 720 Industrial Estates/Areas were sponsored and of these 662 were completed. In these Estates or areas, 13,467 small-scale units were functioning and were providing employment to 2.2 lakh persons.

The progress of the programme is given in details in the following table:

Table 3.12 : Progress of the Industrial Estate Programme.

<table>
<thead>
<tr>
<th>No.</th>
<th>Particulars</th>
<th>Position till March'79</th>
<th>Position till March'81</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Industrial Estates Sponsored</td>
<td>796</td>
<td>799</td>
</tr>
<tr>
<td>2</td>
<td>Industrial Estates Functioning</td>
<td>633</td>
<td>659</td>
</tr>
<tr>
<td>3</td>
<td>Industrial Estates not functioning</td>
<td>72</td>
<td>140</td>
</tr>
<tr>
<td>4</td>
<td>Sheds constructed</td>
<td>19,368</td>
<td>21,547</td>
</tr>
<tr>
<td>5</td>
<td>Sheds allotted</td>
<td>18,057</td>
<td>17,253</td>
</tr>
<tr>
<td>6</td>
<td>Sheds occupied</td>
<td>17,451</td>
<td>17,253</td>
</tr>
<tr>
<td>7</td>
<td>Plots allotted</td>
<td>26,213</td>
<td>24,563</td>
</tr>
<tr>
<td>8</td>
<td>Plots occupied</td>
<td>22,910</td>
<td>24,006</td>
</tr>
</tbody>
</table>


3.1.8 **Sickness in Small-scale Industries**

The small industry is passing through a critical phase. Inspite of the phenomenal growth achieved during the past few decades, and the
broad array of policy measures like provision of infrastructure through industrial estates, exemption from excise duties, special institutional forms of financial support, reservation of items, preferential government purchase and encouragement of ancillarisation, small industries today are caught in the vicious tentacles of sickness and demand stagnation.

3.1.8.1 Definition

According to one school of thought, a sick unit is the one that produces an output which is below 20 percent of its installed capacity. Others feel that a unit is sick when it operates at lower than the break-even point.

The study Team of the State Bank of India, in its Report on Small-Scale Industries Advances 1975, defines a sick unit as "one which fails to generate an internal surplus on a continuing bases and depends for its survival upon a frequent infusions of external funds."\(^{38}\)

The Reserve Bank of India's definition says: "A sick unit is one which incurs cash losses for one year and which in the judgement of the bank, is likely to continue to incur cash losses for the current year as well as the following year, and which has an imbalance in its financial structure. Such as a current ratio of less than 1 : 1 and a worsening debt - equity ratio."\(^{39}\)


3.1.8.2 Present Position

Though the government has been encouraging the establishment of new industries in the small-scale by liberal financial assistance still the industrial sickness among these units has been spreading, resulting in the closure of many of them. The National Census of small-scale industries, 1972, reported that 38 percent of the registered units (98,476), were either not traceable or permanently closed. 40

The table given below shows the increase in number of sick units and comparing them with large and medium industries.

Table 3.13: Increase in No. of Sick units comparing with large scale.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Small-Scale</th>
<th>Large Scale</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dec.79</td>
<td>Dec.80</td>
<td>increase</td>
</tr>
<tr>
<td>No. of Sick units</td>
<td>20,975</td>
<td>23,255</td>
<td>10.8</td>
</tr>
<tr>
<td>Bank credit involved (Rs. crores)</td>
<td>261.7</td>
<td>310</td>
<td>18.7</td>
</tr>
</tbody>
</table>

Source: RBI, Quoted, Industrial India, July, 1983, p.15.

The above table shows that sickness in small scale industries is a growing trend and marked effect of sickness also observed in medium and large industrial units also.

40. Ibid, p.21
If the number of big or medium scale sector which are sick is less than small-scale sector, the amount involved is not less staggering and growth of sickness in large and medium is also alarming. Of course, this is not an aim of this study and small-scale industries discussion shall continue.

Another aspect shows that between July and December 1984, the number of sick units in the small-scale sector rose from 81,647 to 92,015 and total outstanding bank credit due from sick units increased from Rs. 788 crores to Rs. 879 crores. Out of the 92,015 sick units, only 6,242 (about seven percent) were considered viable by financing banks.

According to certain studies carried out during Seventh Five Year Plan, observes that the level of sickness in the small-scale industry has gone up by a considerable extent. In order to reduce this, some of the measures to be taken up could be;

"Adequate and timely availability of credit, timely payment by parent units for purchase made by them from small units or in its absence earmarking a portion of credit limit sanctioned by banks to the parent units for payment of bills to small units, and introduction of seed capital scheme by banks on the lines of the scheme of State Financial Corporation."

3.1.8.3 Factors Responsible

The problem of sickness among the small-scale units is compounded by several depressing factors. First is the lack of interest on the part of financial and banking institutions in the revival of sick units. Secondly, small industries lack resources for modernisation which are essential in many cases for rehabilitating them. The equity base is notoriously thin, liquidity has been affected by credit sales, and delayed payments, and this is exactly the situation when the banking and financial institutions would not come to their rescue. Thirdly, in view of the difficulty in achieving rationalisation of operations, small industries find it difficult to improve quality standards and productivity. Fourthly, both for rehabilitation and modernisation, small industrialists require a first rate consultancy source, which is not fully available. Fifth factor is the attitude of large industries which provide a certain percentage of the market for small industries, specially the so-called 'ancillaries'. Most of them do not seem to take an objective, from national point of view, at the whole concept of ancillary relationship. Finally, government response to the needs of small industries has been piece-meal, tackling each problem as it arises.44

These factor can be classified as a whole in three categories;

a) Mismanagement which may include inadequate, incompetent and inefficient management.

b) Marketing problems, and

44. The Economic Times, New Delhi, Monday, July, 16, 1984, p.4
c) Other reasons which are beyond the control of the entrepreneurs. 45

The major causes of sickness are beyond the control of the entrepreneurs. These can be identified as power shortage, inadequate availability of supply of raw materials, inadequate and intermittent working, capital facilities.

3.1.8.4 Government Provisions

Small Industries Development Organisation (SIDO) is engaged in conducting studies to know the extent and nature of sickness in this sector industry wise and area wise.

A special cell of sick units in the Reserve Bank of India monitors the performance of Commercial banks in taking corrective measures regarding the rehabilitation of sick units. The Reserve Bank of India issued instructions to all commercial banks during May 1978 and December 1978. These instructions emphasise that:

(1) Timely assistance should be provided to deserving cases, after detaching sickness at incipient stage.

(2) The difficulties of sick units should not be compounded by charging of penal rate of interest.

(3) While exploring the possibilities of rehabilitating such units, banks may encounter situations in which the banks themselves may not be able to provide the assistance

45. SIDO, 1980-81, Report, p.99

required. Such cases should be referred to the Industrial Development Bank of India.

(4) The commercial banks should not stress on the credit worthiness of the promoter but assist projects in the small-scale sector on merit. 46

The measures which have been taken by Central Government are;

(1) During July 1979, all the state governments were advised to reconstitute the State Level Coordination Committees already functioning in states, to consider the cases for revival of sick units.

(2) Margin money for revival of sick units - It is being proposed that margin money may be provided to the sick units as a part of package identified by the State Level Inter-Institutional Coordination Committee. Under the scheme a matching loan would be given to each state government by the Central Government, which would, in turn, be provided to the entrepreneurs at soft loan, which can be as a term loan or working capital. This would enable sick units to get increased credit from the financial institutions.

The standing committee in Industrial Sickness set up in pursuance of the recommendations of the 37th meeting 47 of All India Small-Scale Industries Board considered the question of definition of sickness.

46. Ibid, p.100
47. SIDO, 1985-86 Report, p.150
This committee at its meeting held during March 1985 redifined sick unit as the one which has incurred cash losses during the previous accounting year and is likely to incur cash losses in the current accounting year and there is erosion in its net worth to the extent of 25 percent or more or any erosion in its paid up capital.

According to the data on sickness collected and complied by Reserve Bank of India, the percentage of sickness to the total number of borrowing accounts, units increased from 3.2 percent at the end of December 1979 to 6.3 percent at the end of December 1984. Table 3.14 shows the details.

3.2 Iran

The small industries in Iran are the backbone of the industrial development of the country. Even though the majority of them are small workshops spread all over the country. Several thousands of them can be quite efficient units which can develop quickly, if given proper help. They need a lot of financial, technical, managerial assistance. No country can afford to leave the small industry to use their own resources. The problems which small-scale industries are facing in Iran is almost the same as in India and this have been discussed in previous section. The problems of small-scale industries in Iran can be classified as:

1- Factory Site- Location
2- Financial problems
3- Scarcity of raw materials
4- Technology and maintenance of equipment
Table 3.14: A statement showing data on Sickness in Small-Scale Industrial Units by Scheduled Commercial Banks.

<table>
<thead>
<tr>
<th>As the end of</th>
<th>Total no. of SSI Borrowers A/cs or Units</th>
<th>Amount outstanding (Rs. crs)</th>
<th>No. of sick SSI units</th>
<th>Amount outstanding (Rs. crs)</th>
<th>percentage Sick units outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec. 79</td>
<td>655000</td>
<td>2334</td>
<td>20841</td>
<td>269</td>
<td>3.2</td>
</tr>
<tr>
<td>Dec. 80</td>
<td>774000</td>
<td>3010</td>
<td>23256</td>
<td>308</td>
<td>3.0</td>
</tr>
<tr>
<td>Dec. 81</td>
<td>936000</td>
<td>3792</td>
<td>25342</td>
<td>359</td>
<td>2.7</td>
</tr>
<tr>
<td>Dec. 82</td>
<td>1050000</td>
<td>4464</td>
<td>58551</td>
<td>569</td>
<td>5.6</td>
</tr>
<tr>
<td>Dec. 83</td>
<td>1208000</td>
<td>5064</td>
<td>78351</td>
<td>728</td>
<td>6.5</td>
</tr>
<tr>
<td>Dec. 84</td>
<td>1449000</td>
<td>6450</td>
<td>91450</td>
<td>880</td>
<td>6.3</td>
</tr>
<tr>
<td>June 85</td>
<td>1558000</td>
<td>7208</td>
<td>97890</td>
<td>955</td>
<td>6.3</td>
</tr>
</tbody>
</table>

Source: SIDO, 1985-86 Report, p.152
5- Skilled labour

6- Lack of proper organisation for promoting and coordinating the development of small-scale industries.

3.2.1 Factory Site

The problem of optimum factory sites and buildings for small-scale industry in Iran has already attracted attention. Most of the small factories are housed in premises which are cramped, dark and in conducive to work by human beings or for operating machines. Improvement in this situation can promote efficiency in operations and management and increase productivity considerably. The establishment of Industrial Estates, as pilot projects, may result in valuable experience regarding selection of buildings; but these are not a solution to the problems of small industry as a whole.

Establishing a new-work of industrial estates or industrial areas, which serve as focal centres for small industry development, is one of the important programmes approved for this problem. Industrial estates have to play their role as an integral part of comprehensive development programme for small industries. Industrial estates had to be located in selected growth centres possessing potential for small industries development. The location of estates had to be determined by careful feasibility studies. The government was expected to provide extension service, training and common service facilities to the units in the estates, and eventually these estates

were expected to function as model centres for small industry development with effect spread over the whole of concerned region.

Against one industrial estate established in the Fourth Plan period, as many as 30 were proposed during the Fifth Plan (1972-77), but none of them could be completed. 49

There were several sponsors for industrial estates and there was no certainty that they share even common objectives. Some semi-public banking institutions had evinced interest in starting industrial estates and some estates were proposed to be set up as joint ventures between banks and private investors. A few projects called 'industrial park' had been sponsored jointly by certain charitable institutions and government departments. In fact this interest in starting industrial estates was an indication of the success of the demonstration effect of Ahwaz industrial estate.

There are some other measures which might encourage the private investors to establish small factories complementary to the planned large heavy industry complexes. Grouping these small complementary industries around the big ones will give governmental agencies and institutes responsible or occupied with the establishment of heavy industry, an opportunity to advice the small entrepreneurs in construction and layout problems accompanying their settlement. In this way, valuable assistance may be rendered to the small-scale industry, in addition to industrial estates assistance.

3.2.2 **Financial Problems**

It may often be observed that financial problems of small manufacturers are hardly ever just financial. Sometimes the alleged shortage of finance is a symptom of other problems like poor planning, inefficient marketing, lack of cost accounting and so on. A purely financial solution would not be a real help in this case and the benefit would be negligible.

Although a certain percentage of reasonably managed promising small firms may be able to benefit from better finance; real financing does not seem to be the key problem of the small-scale industry in Iran. On the contrary, many potential small entrepreneurs with sufficient financial support are looking for sound projects to invest in.

But still in some cases, the absence of credit facilities has been the most serious handicap of the small industrialist in Iran. In fact the lack of a good credit assistance scheme has been reducing the effectiveness of all other assistance programmes.

In order to advise on the formulation of a proper scheme for liberalised credit facilities for small industries, the services of a short-term consultant from the State Bank of India were obtained in November 1971, under the provision of a bi-lateral agreement. He was appointed as a short term consultant for three months starting from June 1972. He made a thorough study of capital and working capital requirements of small-scale units in Iran.\(^{50}\)

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According to the recommendations, loans had to be disbursed, by the National Bank, on liberalised terms of security, repayment and interest. Losses were to be covered by a guarantee of the government. The security for loans was not necessary against land and buildings but could include machinery and equipment, including the machinery purchased with the loans. In case of working capital, guarantees, promissory notes and other securities of this nature were required by the bank. The value of securities offered should not exceed one and a half time the amount of loans. The period of repayment of the loans was ordinarily four years, with the first year treated as a period of grace. In special cases, the repayment period could be fixed as six years. Interest on the loans was not supposed to exceed 8 percent per annum. No other charges were levied on the recipients of the loans. 51

The real impact of the credit assistance scheme is to be assessed not only by the number of small industries which have received loans or by the amount of loans disbursed, but by the manner in which these loans are utilised by the small units. However, most of the small industrialists would need proper guidance and assistance for the effective utilisation of the loans. Small industrialists who obtain loans for purchasing of new machinery and equipment will need guidance on the selection of the right type of machinery and equipment and the best sources from which they can be obtained. If they have obtained loans for expansion of business, they would need help on the lines the production is to be re-organised and on

51. Ibid, p.43.
efficient methods of managing the business. Many small industrialists who receive loans will need help in improving their sales arrangements, proper plant layout, economic utilisation of raw materials, fuel and variety of other matters. Loan alone will be of little benefit to them if they do not know, how to make the best use of them. In fact without proper guidance and supervision, some of the loanees may misuse the loans for purposes other than those intended under the scheme.

3.2.3 Raw Materials

Generally, two basic conditions underly the handicaps of small manufacturers, as compared to large industries, i.e. purchasing raw material and equipment.

For Iran, the first and most important is the business net-work of suppliers and sales agencies which is much less developed than industrialised countries where it usually provides comprehensive and effective services to industry.

Second, the economy faces a scarcity of raw materials and equipment due to shortage of foreign exchange.

Large factories enjoy advantages of bulk purchases, planning and purchasing abilities of their specialised procurement staffs and generally a greater economical influence to overcome the above handicaps. Since, as many basic large industries are planned to supply the domestic market with materials and equipment, the efficiency of the supplying system in serving small industrialists may be increased.
from the beginning by a wide dissemination of information on demand and supply conditions and by creation of a well organised system, particularly accompanying the supply of equipment.

A sharp knowledge of short and long run market trends, seasonal and other fluctuations will be indispensable.

Purchasing cooperatives of small manufacturers aiming to obtain the advantages of bulk transactions may be another step in improving the raw materials procurement of small-scale industries.

It is worth restating the experience of India in this respect. As it has been mentioned earlier, one of the responsibilities of the Small Industries Development Organisation, is to provide raw materials at right price and of right quality on the right time, to small industries to make them competitive in the market. Iran may create a similar agency with similar objectives.

3.2.4 Technical Know-how

In competitive and constantly changing marketing conditions the production of quality goods at a minimum cost depends solely on the availability of technical know-how from time to time. Modernisation for higher productivity also depends on technical know-how, which is essential for the healthy growth of the small-scale industry. This technical know-how, however depends on industrial research, particularly in the small-scale sector, which not only ensures stability in marketing and profits, but is essential for the very survival of a unit.
But, majority of the existing small-scale industries in Iran are very poorly organised and have only obsolete equipment. Production design, production techniques, use of materials and similar technical aspects were dissatisfactory. But in the recent years there was much improvement in this regard. Most of the machines and equipment were imported and there were almost up-to-date equipments.

Other problems were arising in this regard. The first is under-utilization of capacity which is very often reported. The other is maintenance of machinery and equipment. Most of the equipment being imported from foreign suppliers, the indigenous skills were not available for operating and maintaining them as also effecting minor repairs. This poses a formidable problem of training local personnel and proves quite expensive.

To improve the situation and to avoid such handicaps in establishing new units, the future development of the small-scale industry should be on indigenous technology or imported technology adapted to local conditions. Hence, the Government of Iran may come forward to set up a new agency for coordinating the training and development efforts and removing the obstacles on the path of progress of small-scale industries in Iran.

Once the creation of this institute has been decided, the technical problems related to its implementation have to be investigated in detail together with the definition of the tasks and competences of the different sub-departments of the institute.
It is suggested to establish in the institute for small-scale industries three main sub-departments:

1- A department for industrial advisory services
2 A department for training of entrepreneurs - managers and supervisory personnel.
3- A department for industrial research services.

It is evident that these sub-departments are strongly interdependent.

3.2.5 Human Resources

Human resource is a critical element in development programme of a nation. One of the important advantages of small-scale industries is that they are human resource intensive and generate higher employment per capital invested. But labour also posed a problem faced by small-scale industry. Workers in small-scale industries do not have enough skill and experience. The skilled workers are not attracted by small industries due to lack of facilities offered to them. Uneducated labour does not know how to handle the imported or even local machines. According to the Report of Plan Organisation only 2 percent of the workers had undergone some type of training, short or long-term; before joining the job in small-scale industries and 97 percent did not have any kind of training before or after joining and whatever they have learnt is only due to their experience during working in the factory.53

One of the problems faced by small industrialists in Iran is the lack of knowledge of handling the precision equipments in the right way by the workers. It is because these workers have learnt it from those who also did not know it correctly. Therefore, the training programmes has to be dealt with under two headings:

a) training of private industrialists
b) training of the personnel

Conducting training courses for workers, supervisors and managers of the small units constitute one of the important activities in developing small industries. These courses could be both short-term lasting for a few days and long-term lasting a few months, depending on the nature of the subjects covered.

Training which consists of both theoretical instruction and on the job oriented training should be given high priority for the personnel.

The training of the technical staff at the industrial estates should be emphasised in the workshops and laboratories. In addition to the on-the-job training programme, they should also be exposed to theoretical instructions through series of seminars and training courses.

For conducting such training, there should be proper organisation with enough power and responsibilities to look after the small-scale industries interests.

The other subject which has to get due attention in case of labour is the improvement of human relations in small factories, an aspect which is very often neglected. Working condition, labour-
management relations and government regulations in this fields are sometimes viewed solely from the angle of social welfare. But the treatment of people in industry, problems of recruitment, employment terms, training on the job and others, are one of the most fundamental elements for high productivity. Modern human relation techniques are as important in successful industrial development as modern mechanical techniques.

Although one of the remarkable advantages of the small industry consists of the face-to-face, personal relationships between managers and workers, this personal contact does not guarantee good human relations. The entrepreneur - manager of small-scale industry needs as much help in improving the method of handling of human organisation and human relations in the factory as in improving the technical production process.

3.2.6 Lack of Proper Organisation

In the preceding pages a brief survey has been given on the problem related to an accelerated growth of a modern small-scale industry capable of accepting its share in the transformation of Iran from an agricultural society into an industrialised country. It is evident that the innumerable problems have to be tackled with modern techniques, taking advantage of the experiences of other countries and international development agencies. The ultimate aim is to create economically viable enterprises which can stand on their own feet without perpetual subsidy and can make a positive contribution to the growth of real income and therefore, to better living levels.
The suggestion is to initiate a scientific approach to solve the above difficulties by setting up an institute for small-scale industry.

The objectives of this Institute should be;

- the promotion of selective growth of small industries
- organising of management development programmes
- the promotion of technological improvements adopted to local conditions
- the promotion of complementarity of different types and sizes of industry.

Besides, through this institute for small scale industries the government possess other possibilities for encouraging private capital investments in modern, economically sound small factories. One of the outstanding examples is the promotion of interfirm relations. Though it is big financial participation in the sanctioned and planned heavy industries, the government has a control over the management policy of these large-scale industries.

It is therefore, recommended that the government apply its management control for stimulating and creating interfirm relation between large and small industries.
3.3 Conclusion

Whether in small or large industry, problems always exists. Some of them face problems as if they are a challenge because that is the road to advancement. If there is no problem one tends to feel complacent, which is the beginning of one's decadance. The problems of small-scale industries should, therefore, be treated in this spirit. This, of course, does not mean that the governments, the local bodies, financial institutions and banks should create unnecessary obstacles in the path of industrialists; nor the industrialists should function in isolation. Instead, they should be increasingly aware of the fact that they are a part of larger society, each section of which has its own strong and weak points.

During the post-independence period, in India, the governments at the centre and state levels have established a number of specialised institutions to cater the varied needs of small scale units. These promotional institutions assist all and sundry in setting up small units with a view either to fulfilling their objective or overreach their target; but still they do not ensure the provision of adequate working capital, raw materials and power supply, nor do they help them to the extent of overcoming the problem of developing marketing outlets for the sale of their products. This situation arose because of the absence of a meaningful coordination among the concerned agencies.

As the case of Iran may be, the organisational measures are required for the creation of the Institute for Small-Scale Industries. Promotion of technological improvement and adaptation of existing
technology to local condition through this Institute is highly recommended. Small industrialists need to be brought in touch with the best production methods that science and technology can offer. Existing methods have to be adopted to fit such conditions as smaller and more isolated markets, expensive capital, abundant and cheaper labour and so on.

To promote the selective growth of small industries, a certain amount of thought should be given to poorly run and unprogressive firms or those in ill-advised lines of production along with growth of the more efficient firms in the better chosen lines is necessary. The objective should be not to keep industry small but to help it to grow. Smallness as such should not be favoured or rewarded.

Finally, problems of small-scale industries are multi-dimensional. These can be solved by the coordinated efforts of entrepreneurs, the coordinated functioning of promotional agencies, and governmental assistance. The entrepreneur has to be educated, and should have a proper training in acquiring the necessary skill in running a small enterprise. In fact, the small entrepreneur is the king-pin of the small industry.
CHAPTER IV : OUTPUT RELATED ISSUES

4.1 Output Related Issues in India

The various problems of small-scale industries related to inputs were discussed in the previous chapter. In this chapter, the attempt has been made to throw light on the problems during the course of and after production cycle is completed. These problems may be described under the general description of output related problems.

Small industries as mentioned in the previous chapter, suffer from a number of handicaps in their production cycle, which are inherent on account of the smallness of their size. In case of marketing, they may be capable technically, but are inexperienced in marketing their products. Financial and production activities demand a lot of attention for the satisfactory operation of the unit and therefore, they do not find time to systematically analyse and solve their marketing problems. They rely on sales agents and distributors if they do not have one or two large customers. Their resources are also small and therefore, they do not have the necessary strength to withstand economic pressures and forces. Hence, it is not possible for them to undertake systematic market research and to cultivate markets for their products on the basis of field survey. It is almost impossible for such units to independently launch promotional campaigns, create a brand image or collect marketing information which would be uneconomical. These units thus suffer from lack of specialised knowledge in exploring new markets, as it is rightly mentioned even in sixth Five Year Plan;
"The marketing problem of cottage and small-scale industries flow from their scale of operation, lack of standardisation, inadequate market intelligence, competition from large-scale units and sufficient holding capacity".

One of the important reasons why the small-scale units fall sick is that they often do not take into account the market potential and marketing environment. From the conceptual stage itself a small-scale unit should adopt modern marketing and innovation techniques. There is no dearth of agencies meant to assist small units to modernise. Small-scale industries, therefore, need not hesitate to grapple with the problems of adjustment.

Small-scale industries face many problems while marketing their products chiefly because of the absence of well developed sales organisations as compared to that of larger competing units, absence of standardisation of products, inability to meet the requirements of government and other bulk purchasers and the urgent need to dispose of their products immediately at any available price, due to paucity of working capital and consequent lack of staying power.²

With the rapid expansion of the small-scale sector, the problem of marketing its products has started evoking interest and concern. The sector which has already become a million strong, produces a very wide range of products. There are units producing traditional and relatively simple items as well as thousands of units engaged in the manufacture of sophisticated items hitherto produced only by the

1. Government of India, Sixth Five Year Plan, Para: 12.30

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organised large industry. The items produced by it are consumer goods, durable and non-durable, intermediate and components and producer goods. The quality of most of the goods produced in this sector is fairly good.

In the recent past, there has been an attempt to play down the difficulties and play up the progress and achievements of small-scale sector. The fact that small-scale units passes the necessary capacity and capability to produce goods of acceptable quality is now widely acknowledged. But just production is not enough.

The marketing problems of small-scale industries may be divided into two parts;

A - Internal marketing
B - Export marketing

4.1.1 Internal Marketing

Marketing occupies an important place in the management of a small-scale industry. It is a key factor in determining the success of an industrial concern. Traditionally, marketing consisted of "those efforts which effect transfers of ownership of goods and care for their physical distribution". P. Kotler defines marketing as a:

"Human activity directed at satisfying needs and process".3

In the internal marketing small-scale industries may face different problems as:

4.1.1.1 **Methods of Marketing**

The existing methods for the marketing of the products of small-scale industries are two types;

a - Direct marketing

b - Indirect marketing

4.1.1.1.1 **Direct Marketing**

Small industries for their sustenance, need various supporting services, efficiently organised and promptly extended. Marketing guidance is one such service, which is increasingly expected by newly established small units in areas which are far from developed metropolitan cities. These industries are often not in a position to carry on the activities which are essential pre-requisite in the marketing process. These activities are as follows:–

1. **Production Bottlenecks**

Actually, marketing problems of small industrialists can not be studied in isolation without taking cognizance of the production bottlenecks. Though many small industrialists are frequently found to be production oriented, with necessary technological background and skills, they are unable to produce goods acceptable in the market mostly because of non-availability of the requisite quality of raw materials. In case of some industries, the higher prices of raw materials leaves the possibility of producing only inferior quality goods, if the entrepreneur had no control over prices either because of contractual obligations or of market force.
For the units manufacturing capital equipment the sales problem, though mainly arising out of limited size of operation, is slightly of a more serious nature. It is not only one of exploitation of the existing market in competition with medium and large enterprises but also that of maintaining efficient after sales service, which is often beyond the capacity of a small industrialist. Even here if the coverage of the market is limited small industries are better placed than even large industries, as they can attend to the consumer's complaints more quickly. But if the geographical spread is wider, the small industrialist has often to depend on distributors or other specialised agencies to look after sales as well as after-sales service.

2. **Lack of Finance**

An entrepreneur venturing to start a small unit can not afford to establish a well-knit marketing organisation for the sale of his products. The small-scale entrepreneur is normally the one who has to look after all the aspects of his business, such as production, marketing, finance, purchasing, labour, etc. He finds it difficult to give adequate attention to marketing which actually is of paramount importance. He takes his decision alone or may be with the help of a partner. In a large company, a dozen people would discuss the pros and cons of all the problems involved in different areas, such as production, marketing and pricing. He can not afford to have services of specialists who prepares marketing plans for penetration into domestic and foreign markets for their products, mostly, they have to depend on government purchase programmes.
A little more careful consideration than hitherto of the marketing potential and some concrete advice on marketing could be given at the time of registration of new small-scale unit. The units could be cautioned about the inherent danger of entering into a line where too many entrepreneurs are already present and encouraged to go into a line with greater potential.

3. **Quality Control and Standardisation**

One of the reasons why the small-scale sector sometimes suffers from marketing disabilities is that they are often unable to obtain testing facilities and quality certification. At present, the problem of quality is being tackled from two angles, first, by having as many products under Indian Standard Institution (ISI) specifications as possible and second, to make testing facilities available to the manufacturer at nearest places.  

It should be the duty of market research how articles should be designed, made, and finished in order to be acceptable. The setting up a reliable organisation that will test and certify the products of small-scale and cottage industries and materially enhance the market value of their products is recommended.

4. **Market Research**

A careful market study and correct forecasting of demand are pre-

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requisites for the success of a unit whether in the small or large-scale sector. The report of the study team of the State Bank of India, which examined the difficulties and problems of the small-scale sector in 1975, found out that over 40 percent of the samples (of small-scale units) examined by the team were started without any feasibility study and detailed project reports. Such reports as were prepared and submitted by the sponsors to banks or other financing institutions were offered more as a device to obtain finance rather than as a guide to further operations. It is obvious that the mortality among such units was high.

Marketing management is a specialised job involving techniques which demand creation and sales promotion. In majority of cases, small industrialists, do not have the necessary training in this regard. With the limited size of operations and finance, many units are unable to hire specialists services or engage in own market research. Hence, in many cases the units had to make often unsatisfactory marketing arrangements.

Data Bank

Marketing research is very important in the case of small industries, because their articles are tailored to suit individual or group tastes, habits and uses. The change of tastes on the part of consumers is important explanation for the fall in demand of a specific article. Due to lack of market surveys and the absence of

organised efforts very little readjustment may take place in the shape of the commodities turned out by small industries. Possession of superior factual knowledge of the ultimate buyer will provide the strongest competitive weapons to the small scale industries in India.

A glaring lacuna in the whole set up for small industry development is the absence of an institution to collect reliable and up-to-date market intelligence on industrial products and make it available in time. What is important is timely availability of information with a reasonable degree of accuracy rather than delayed supply of cent per cent accurate information. Actually, it could be as:

"The question of creating an institution in the private or joint sector to collect and disseminate both national and state level market intelligence, therefore, merits urgent consideration both by government and private businessman. The institution can ultimately become self-financing provided it is soundly conceived and implemented. Such an arrangement will smoothen the process of both promotion and expansion of industrial activity in the small scale sector."

Management thinking in these industries should therefore, begin with the demand side of economic equation. Production in accordance with a carefully measured demand will provide a sounder base with the existing products as to performance, style, quality, size and price can be invaluable in determining the competitive position of small industries.

5. Information Feedback

Types and areas of consumption are shifting, but only a few
products try to follow them. There are no sound channels of communication between the small manufacturer and the ultimate consumer. In many cases the artisan do not know in what part of the country their goods are used, or who buys them. Under the stress of economic conditions, businessmen have learnt that is not enough to produce technically perfect goods, but that it is in the market place that their fate is decided. When the buyer become supreme, more and more market research is needed to keep pace with production and reliable system of distribution takes the centre of the stage.  

Today, mainly for the lack of information about the capabilities of this sector, many large-scale units are continuing to depend upon imports or are themselves producing components and intermediates that are used to make their own products despite their production being economically unwarranted. At the same time, the small units are not always aware of what the requirements of the large units are and, as a result of this information gap, both the large and small units continue to suffer in isolation. This is one area where the associations of industries and the promotional agencies can play a much more effective role. On the other hand, the production capacity of the small sector need to be compiled elaborately and, on the other, the requirements of the large-scale sector need to be concisely documented and updated from time to time.

Marketing has come to be recognised as crucial to the viability of a project. In recent times, many small-scale units have come to grief because of lack of organised marketing efforts, and difficulties

regarding market research. Small industries do not have adequate information about competitive price quotation, consumer performance etc. The solution is in scientific, well-organised and planned marketing. The seventh Five Year Plan remarks in this regard is;

"The marketing strategy needs to be reoriented to meet the consumer needs. This will necessitate diversification of markets and product-mix, introduction of modern marketing techniques, better inventory control, better management practices, exploring new markets, keeping the cost of marketing low and efficacious use of mass media for consumer education and market promotion".

4.1.1.1.2 Indirect Marketing

1. Distributors

The small-scale industrialist has to take positive steps to bring his products to the attention of potential customers in order to create a demand for them. Once a product is accepted by a customer, the small-scale industrialist has to consider the ways and means of arranging to supply it to his consumers.

Normally, in the absence of sales organisation, poor publicity, small industrial units are often forced to sell their products to dealers who market them under their own brand name.

The sales problems of the small industrialists would also reveal the extreme dependence on distributors or merchant houses. Often they have to extend credit facilities to their selling agents and other


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purchasers. The private sector traders or manufacturers, barring a few exceptions generally stipulated long payment conditions extending from three months to nearly one year. For this period the small entrepreneur has to stretch his resources which he often finds it difficult with a weak financial base and inadequate flow of institutional credit.

2. Government

The units supplying to governments do not fare better. Although, general satisfaction has been expressed regarding favouritism shown in the placement of orders. It is stated that the governments and government industrial enterprises do not show a preferred treatment to the small sector in placing the orders. Also granting of price preference, it is not held, and rarely observed.

Even in respect of payment in government purchases small insutrialists are not feeling quite happy. The payment reportedly, take a long time and producers are often cumbersome.¹¹

To establish contacts and secure government contract for the supply of goods and services appear to be a simple enough task, but it is not really so. The government is a demanding customer. The risks are great, and the job calls for competent marketing skills and expertise. Contract interpretation and proposal preparation are difficult jobs. To the extent an entrepreneur succeeds in these two tasks, his penetration in the Government Purchase Department is

¹¹. NCAER, OP. Cit, p.39.
assured. The quality norms and reliability levels are relatively higher for government purchases because the purpose of government buying is different from that of private buying. The government purchases are not for resale but for use. Therefore, the products must have a high degree of reliability. This can be ensured if quality control is enforced and if there is a high sense of business.

4.1.1.2 Competition

Competition with large and medium scale industries is a major deterrent to small entrepreneurs in the markets. This is over simplifying the problem. Large-scale units have an edge over small ones in the matter of economies of size and scale, sufficient financial strength to face the temporary set backs and competence to hire profession managers specialising in different branches of the management. Small scale sector, on the other hand suffers from lack of resources and specialised know-how, absence of motivation and lack of emotional involvement in the productivity movement. The specialisation available in the large units is difficult to be engaged for the small scale units. This results in acute competition between large and small scale units.

Where the small industrialists have to compete with branded goods or where consumers are scattered over wider areas, marketing was found to pose a critical problem. The small industrialists with limited turnover could not afford to spend sufficient money in advertisement and other sales promotion activities to capture the market nor had they the necessary skill. Hence the majority of small entrepreneurs
were forced to hand over their production to distributors or sole selling agents or big trading houses to be marketed under their own brand names. A small proportion of small industrialists did, however, depend upon their own resources to build up distribution channels and attempt to create an image through various media with varying degrees of success.  

Small scale units have to face a triangular fight in the internal markets from large units, middle-man or traders and intra industry specially, in respect of consumer products, the firms and companies which can afford to earmark sizeable budgets for advertisement and publicity make it difficult for a small entrepreneur to introduce his product, howsoever, good in quality, the expenditure on publicity is not financed by financial institutions, which is a further constraint for small unit to enter into consumer marketing field.

4.1.1.3 Institutional Facilities

The need for marketing assistance, preferably on organised basis, is very much made clear in the proposed Small Industries Development Act in India. Assistance and facilities to associations and consortia of small industries should be provided. Other suitable agencies for organising marketing of the products of small units, particularly in those products lines where they foresee competition from large industries should be established. In cases where goods could be marketed or market could be developed through the establishment of a chain of marketing outlets the necessary arrangement should be done.

12. Ibid.

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The facilities shall include financial assistance for setting up departmental stores, common publicity and advertisement, participation in trade fairs and for providing transport facilities and certification works for the products of small industrial units in order to create confidence among the consumers. In the field of quality control, appropriate measures to popularise such products should be taken.

And even in the Sixth Five Year Plan draft one observes almost the same emphasis on marketing of products of small-scale units. The continued dependence of a significant large number of different rural and other small industries for marketing their products on middlemen has been mentioned. And even it has been mentioned that a large number of these industries has also been experiencing difficulties in marketing their products. Therefore, it has emphasised on;

"marketing assistance including those for market intelligence and surveys, testing facilities, quality control and standardisation of products of selected industries will receive special attention. Greater efforts will be made to provide closer marketing linkages between the products of small-scale industries and the requirements of medium and large industries particularly the public sector undertakings".

With a view to support the marketing efforts of small entrepreneurs, the Central Government gives its support mainly through two policy measures. First, about eight hundred and seventy three

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13. Jain, O.P., Rural Industrialisation, Commercial Publication Bureau, New Delhi, 1975, p.283


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items have been reserved for production in the small-scale sector and as a result, the increased demand is supposed to be not only through the expansion of the small-scale sector thereby limiting competition in marketing from large scale units. The list of reserved items is continually reviewed and items added and deleted depending upon the market demand and the capacity of the small-scale sector to produce these items.

Secondly, in the purchase programme of the Central Government, a little over 400 items are reserved for exclusive purchase by governments from the small scale sector.

Many of the items figuring in this list are also produced by the large sector but the Central Government has deliberately decided to purchase these items only from the small units. In addition, a price preference of upto 15 percent, Vis-a-vis, the medium and large-scale units and traders, is also admissible, in the Government Purchase Programme, to products of small industries.

Besides these two important support measures, the Central Government has also allowed units having investment in plant and machinery upto Rs.45 lakhs to be eligible for benefit available to small units as long as they supply 50 percent or more of their production to other units, i.e., function as ancillaries.

4.1.1.3.1 Central Government Stores Purchase Programme

Government happens to be the largest single purchaser of the various items produced in the country both in the large as well as the small scale sectors.
With a view to increase the share of government purchase from the small-scale sector, the Central Government store Purchase Programme was launched by DGS & D with reservation of certain products for purchase exclusively from small scale sector. Government being the single largest buyer of a large variety of goods, the reservation of items, would provide not only boost to the marketing of the products of small-scale sector but would also motivate them to produce goods in conformity with the different standards laid down by the purchasing departments.

A number of facilities are provided to small-scale units under the programme:

1. Free registrations with DGS & D
2. Free supply of tender forms
3. Exemption from payment of earnest money and security deposits.
4. Price preference upto 15% in case of selected items.

4.1.3.1.1 Reservation for Purchase

The items of Government purchases have been grouped as follows:

Group I: Items which are of no interest to small scale units and are to be procured only from large scale sector.

Group II: Items which by their very nature require large scale firms as prime contractor but permit scope for purchase of components and parts from small scale sector.
Group III: Residual items which both small-scale and large-scale firms can supply.

Group IV: Items reserved for exclusive procurement from small-scale units. The number of items under Group IV has increased from 16 in 1956-57 to 409 in 1985-86.

Group V: It contains 13 items which are to be procured exclusively from small-scale industries up to 75% of the requirements.

Group VI: It contains 28 items which are to be procured exclusively from the small-scale industrial units up to 50% of the requirements.\(^{15}\)

The items not included in the list of items for exclusive or preferential purchase but included in the list of items reserved for production in small-scale sector are given price preference up to 15 percent. This price preference is not automatic and is subject to certain conditions. Similarly the actual quantum of price preference is decided in each case on merits.

\(^{15}\) SIDO, Marketing Assistance to Small-Scale Industries, 1987, p.3
<table>
<thead>
<tr>
<th>Year</th>
<th>No. of items</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
<td>11</td>
</tr>
<tr>
<td>1981-82</td>
<td>11</td>
</tr>
<tr>
<td>1982-83</td>
<td>12</td>
</tr>
<tr>
<td>1983-84</td>
<td>12</td>
</tr>
<tr>
<td>1984-85</td>
<td>12</td>
</tr>
<tr>
<td>1985-86</td>
<td>13</td>
</tr>
</tbody>
</table>

Source: SSI in India, Fact and Figures, Development Commissioner (SSI), 1987, P:13

In the situation where basic considerations like quality, delivery conditions are comparable or where small-scale industries have an advantage over large-scale units or where the small-scale units have established themselves as suppliers to the government on competitive terms, the products of small scale units are given preference over those of other manufacturers.
Table 4.2  No. of Group VI Items from which upto 50% of purchases by DGS & D are Reserved for SSI Units.

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of items</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
<td>15</td>
</tr>
<tr>
<td>1981-82</td>
<td>16</td>
</tr>
<tr>
<td>1982-83</td>
<td>25</td>
</tr>
<tr>
<td>1983-84</td>
<td>25</td>
</tr>
<tr>
<td>1984-85</td>
<td>25</td>
</tr>
<tr>
<td>1985-86</td>
<td>28</td>
</tr>
</tbody>
</table>

Source: SSI in India, Fact and Figures, Development Commissioner (SSI), 1987, p.13.

Among the other infrastructural support available for the small-scale sector, is the facility for single point registration with National Small Industries Corporation (NSIC) for sales to the Directorate, General of Supply & Disposal (DGS & D), the nodal agency for purchase on behalf of the Central Government and direct marketing support offered by agencies like National small Industries Corporation and Small-Scale Industries Development Corporation all over the country.
Table 4.3 Value of Government Purchases Made From Small-Scale Industries Through DGS & D

<table>
<thead>
<tr>
<th>Year</th>
<th>Value of Purchases (Rs. Crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
<td>197.35</td>
</tr>
<tr>
<td>1981-82</td>
<td>221.25</td>
</tr>
<tr>
<td>1982-83</td>
<td>218.04</td>
</tr>
<tr>
<td>1983-84</td>
<td>270.42</td>
</tr>
<tr>
<td>1984-85</td>
<td>258.08</td>
</tr>
<tr>
<td>1985-86</td>
<td>231.98</td>
</tr>
</tbody>
</table>

Source: Marketing Assistance to SSI, Development Commissioner (SSI), 1987, p.4

While measures to increase the support available to the small-scale sector in the purchases by the government and its agencies are being thought of; an area where vast potential for increase lies is in marketing to the private sector which, too in recent years, has expanded well and with the current liberalisation in the licensing policies is bound to grow even more rapidly. At present, there is no compulsion at all, upon the buyers in the private sector to accord any preference to the products of the small industries and perhaps, this is rightly so. Nevertheless, it is the area which holds out considerable promise for the small units.
Table 4.4 Reservation of Items (SIDO) for Exclusive Production in Small-Scale Sector.

<table>
<thead>
<tr>
<th>Year</th>
<th>Reserved</th>
<th>Dereserved</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980–81</td>
<td>28</td>
<td>1</td>
<td>833</td>
</tr>
<tr>
<td>1981–82</td>
<td>11</td>
<td>13</td>
<td>831</td>
</tr>
<tr>
<td>1982–83</td>
<td>9</td>
<td>3</td>
<td>837</td>
</tr>
<tr>
<td>1983–84</td>
<td>35</td>
<td>–</td>
<td>872</td>
</tr>
<tr>
<td>1984–85</td>
<td>1</td>
<td>–</td>
<td>873</td>
</tr>
<tr>
<td>1985–86</td>
<td>8</td>
<td>18</td>
<td>863</td>
</tr>
</tbody>
</table>

Source: SSI in India, Facts and Figures, Development Commissioner (SSI), 1987, P.12

4.1.1.3.2 Small Industries Development Organisation

As marketing is a key factor in determining the success of an industrial concern and this activity occupies a strategic place in the survival of small-scale industries, the Small Industries Development Organisation is paying considerable attention to the promotion of marketing facilities for small-scale industries in India. Small-scale industries are being assisted by Small Industries Development Organisation (SIDO) to strengthen their marketing capabilities. The Organisation provides marketing assistance to small-scale units through developing or promoting ancillarisation, providing marketing intelligence and information, establishing trade centres, encouraging
small entrepreneurs to participate in Government Purchase Programmes of Central and state Governments, setting up a sub-contracting exchanges, organising exhibitions, seminars and training programmes in marketing and publishing of information booklets etc.

The small Industries service Institutes are actively engaged in identification and promoting new items for ancillarisation besides rendering technical and managerial assistance to the existing ancillaries. Regionwise Seminars, exhibitions and buyer-seller meets were also organised to help the large undertakings and the small scale industries to have mutual benefits through ancillarisation.

The Small Industries Service Institute has established number of Sub-Contracting Exchanges located in different parts of the country. But, the information available with them is often for very few items and is to have complete information about the requirements of large industries located in that area and the production capacities of the small units in that region and furthermore. All these sub-contracting exchanges in turn need to be connected to a national grid so that units of one area could take benefit of units located elsewhere. In due course, this arrangement could also be expanded and an international sub-contracting exchange set up.

A number of state level Ancillary Development Seminars and Exhibitions were organised during the year 1985-86 by the Small Industries Services Institutes as per details given below:
Table 4.5 The Physical Achievement in Respect of Promotion and other Assistance by SISIs during 1985-86.

<table>
<thead>
<tr>
<th>A. Ancillary Development Activities</th>
<th>Nos.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Ancillary Development Seminars</td>
<td>22</td>
</tr>
<tr>
<td>2. State Level Ancillary Development Committee meetings held</td>
<td>19</td>
</tr>
<tr>
<td>3. Buyers-Sellers Meetings and Exhibitions</td>
<td>34</td>
</tr>
<tr>
<td>4. Plant Level Committee meetings</td>
<td>181</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>B. Sub-Contracting Exchange Programme</th>
</tr>
</thead>
<tbody>
<tr>
<td>5. No. of units Registered under Sub-contracting Exchange</td>
</tr>
<tr>
<td>6. No. of small scale units Assisted by Sub-contracting Exchange during 1985-86</td>
</tr>
</tbody>
</table>


As a result of the intensive efforts of small Industries Development Organisation, the value of purchases from the small scale sector made by public and private sector undertakings, corporations, railways and defence establishments increased from Rs.120 crores in 1977-78 to about Rs.150 crores in 1978-79. The total purchase made by public sector undertakings during 1979-80 came to Rs.156.88 crores.

out of which the share of the small scale units was Rs.55.80 crores.\textsuperscript{17} And the total purchase made by the public sector undertakings from small-scale ancillaries during the year 1980-81 would be of the order of Rs.120 crores.\textsuperscript{18}

With a view to provide effective support to small-scale units in securing sub-contracting jobs and services from large and medium undertakings in the country, 16 Sub-Contracting Exchanges located at all the major states of the country have been engaged in providing suitable and effective linkage between the large industries and the small-scale feeder units and in maintaining up-to-date information on the spare capacities available with the small-scale units and to match it with the requirements obtained from the large and medium sectors of the industry.

The main functions of Sub-Contracting Exchanges are:

- to invite small-scale units to register with the exchange their spare capacities on specific machines;
- to approach large industries with a view to listing out items which could be manufactured in small scale units.
- to render technical assistance to small scale units in creating new capacity for specific processes or manufacature of items required by large scale undertakings and
- to furnish information on firms from whom the enquiries can either secure orders to meet their requirements or can sub-contract their requirements.

\textsuperscript{17} Ibid, 1979-80 Report, p.75
\textsuperscript{18} Ibid, 1980-81 Report, p.48
Table 4.6 Activities of Sub-contracting Exchanges
(period January 1979 to October 1979)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. No. of large undertakings contacted</td>
<td>192</td>
</tr>
<tr>
<td>2. No. of Ancillary units developed</td>
<td>38</td>
</tr>
<tr>
<td>3. No. of Ancillary items identified</td>
<td>333</td>
</tr>
<tr>
<td>4. No. of Ancillary units assisted</td>
<td>520</td>
</tr>
<tr>
<td>5. No. of small scale units assisted</td>
<td>592</td>
</tr>
</tbody>
</table>

Source: Report 1979-80, SIDO, P:76.

1. Trade Centres

Under the programme of Trade Centres the state governments are given assistance for setting up Trade Centres by way of grant-in-aid to the extent of 50 percent of recurring and non-recurring expenditures, excluding land, building and administration subject to maximum of Rs.3 lakhs per annum for period of five years. These centres provide a focal point for buyers and sellers with supplementary services necessary for trade centres and transactions between small-scale industries and buyers of their products including large-scale manufacturers, importers and merchant exporters, purchasing organisations and consumers in general.

2. Marketing Division

In 1976 a separate marketing Division was created to help to intensify its efforts for solving marketing problems of the small
scale units. The Division looked after the work pertaining to creation of suitable market information systems, market counselling to small entrepreneurs, setting up trade centres and it maintained closed liaison with National Small Industries Corporation (NSIC), State Small Industries Development Organisation (SIDO) received a large number of trade enquiries and complaints from small-scale units, associations, other organisations about their marketing problems. Besides attending to these enquiries, Small Industries Development Organisation (SIDO) provided market counselling and assistance to a large number of small scale units.

3. Tendering Assistance

In order to help the small-scale industrial units in marketing their products, the small-scale industry corporation in states have started tendering on behalf of small scale industrial units to various agencies including Directorate General of Supply and Disposal (DGS & D), Railways, Defence, and Stat Store Purchase Authorities including public sector undertakings. The basic idea behind this approach is that individual small scale industrial units are scattered throughout India and their resources being limited, can not participate in Government store Purchase Programmes. Therefore, through this kinds of assistance they will be able to take part in this sort of programmes.

Small Industries Development Organisation (SIDO) also assisted Directorate General of supplies and Disposal (DGS & D) and other purchasing organisations indentifying the small-scale industrial units for the supply of items required by them. It has also disseminated
information to small scale industrial units on items which are in short supply and required frequently by the Directorate General Supplies and Disposal (DGS & D).

4.1.1.3.3 National Small Industries Corporation

One of the important activities of the National Small Industries Corporation (NSIC) is marketing activity. The National Small Industries Corporation's (Marketing Assistance) Programme incorporates the following activities:

I. Marketing programmes

   a. Marketing of machine tools, manufactured by its prototype Development and Training centres (PDTCS) and also products (electrical motors and quality machines) of government.

   b. International marketing of selected products and assistance encouragement to formation of small industry consortia and

   c. Distribution and import of scarce raw materials, components and parts.

II. Marketing assistance under Government Purchase Programme.

Under the Government Purchase Programme, National Small Industries Corporation is providing institutional marketing assistance by enlisting small scale units for participation in the Government Stores Purchase Programmes.19

The National Small Industries corporation acts mainly as a liaison agency and helps the small-scale units to secure a larger share of government business. The features of scheme are:

"a) Instead of purchasing tender sets from the Directorate General of supplies & Disposal (DGS & D) the small units enlisted with the Corporation automatically get them free of cost, from it and its branches,

b) After verifying the technical competence of the small units, the corporation issues certificate of competency. The unit to which competency certificate has been issued by the corporation do not has to pay any security deposits to Government Purchasing Agencies.

c) Provided that the specifications and quality are acceptable, the small units get a price preference upto 15 percent over the quotations of large scale units, depending on the merits of each case,

d) Whenever the small units feel that injustice has been done to them, the National Small Industries Corporation takes up their cases with the Directorate General of Supplies & Disposal (DGS & D) in order to find out the reason for the non placement of contracts with these units and tries to redress their grievances where ever feasible or possible.

e) As a result of the efforts of the National Small Industries Corporation (NSIC), another big purchase department, the Ministry of Defence, has come in line with the DGS & D, and has now started exempting small units from the payment of security deposits".

As on March 1967, Corporation helped the units to secure 20,565 government contracts from Directorate General Supplies & Disposal (DGS & D) of the value of Rs.117.5 million\textsuperscript{21}.

The share of small scale industries in total purchases made by DGS & D in 1972-73 was Rs.72.75 crores against total indigenous purchase made by DGS& D in the same period worthed Rs.815.03 crores. In the 1978-79 the total indigenous purchase was about Rs.851.17 crores against 115.40 crores share of small units. A close look shows that the total purchase increased almost 4.5 percent but the share of small industries indicate the increase more than 72 percent in this period.

In 1981-82 the total purchase was about Rs.1657.17 crores and share of small units was Rs.207.32 crores. The total purchase compared to the year 1972-73 is almost double whereas the share of small units is something around three times\textsuperscript{22}.

Till March 1986, about 11,000 small scale units were listed with corporation under single Point Registration scheme.

The progress of purchases made by Directorate General of Supplies and Disposal (DGS & D) from small scale sector in period 1972-85 is given below;

\begin{footnotesize}
\begin{enumerate}
  \item Gupta, D.C., and Dubey, S.C., \textit{Facilities and Procedures for Small Industries (Guide for Small Industries)}, Small Industries Research Institute, p.72
  \item \textit{The Economic Times}, New Delhi, Wednesday, January 30, 1985, p.II.
\end{enumerate}
\end{footnotesize}
Table 4.7: Purchases made by DGS & D from SSI

<table>
<thead>
<tr>
<th>Period</th>
<th>Total indigenous purchases made by DGS &amp; D</th>
<th>Share of large units</th>
<th>Share of small units</th>
</tr>
</thead>
<tbody>
<tr>
<td>1972-73</td>
<td>815.03</td>
<td>742.28</td>
<td>72.75</td>
</tr>
<tr>
<td>1973-74</td>
<td>764.08</td>
<td>708.36</td>
<td>55.72</td>
</tr>
<tr>
<td>1974-75</td>
<td>860.98</td>
<td>774.95</td>
<td>86.03</td>
</tr>
<tr>
<td>1975-76</td>
<td>991.70</td>
<td>897.60</td>
<td>94.10</td>
</tr>
<tr>
<td>1976-77</td>
<td>975.16</td>
<td>868.69</td>
<td>106.47</td>
</tr>
<tr>
<td>1977-78</td>
<td>851.17</td>
<td>735.77</td>
<td>115.40</td>
</tr>
<tr>
<td>1978-79</td>
<td>886.97</td>
<td>772.93</td>
<td>114.04</td>
</tr>
<tr>
<td>1979-80</td>
<td>964.86</td>
<td>843.07</td>
<td>121.79</td>
</tr>
<tr>
<td>1980-81</td>
<td>1432.58</td>
<td>1235.23</td>
<td>197.35</td>
</tr>
<tr>
<td>1981-82</td>
<td>1657.17</td>
<td>1449.85</td>
<td>207.32</td>
</tr>
<tr>
<td>1982-83</td>
<td>1802.11</td>
<td>1584.07</td>
<td>218.04</td>
</tr>
<tr>
<td>1983-84</td>
<td>2212.74</td>
<td>1942.32</td>
<td>270.42</td>
</tr>
<tr>
<td>1984-85</td>
<td>2409.97</td>
<td>2151.89</td>
<td>258.08</td>
</tr>
</tbody>
</table>

2 - Report 1985-86, SIDO, p.72

To promote the growth of small scale unit institutional marketing support is indispensable. The corporation has therefore, been endeavouring to improve its service in the sphere of marketing and it is a matter of great satisfaction that the sales turnover of the corporation has increased substantially during the year 1985-86 to Rs.2178 lakhs as against Rs.629.78 lakhs in 1983-84 and Rs.1610.57 in 1984-85. The details are given below;
FIG. 4.1. TOTAL PURCHASES MADE BY DGS&D FROM SMALL-SCALE SECTORS DURING 1980–1986
### Table 4–8: Sales Turnover of NSIC.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Internal marketing value of small industries products marketed and raw materials distributed to small-scale units</td>
<td>1970.80</td>
<td>1245.95</td>
<td>439.63</td>
</tr>
<tr>
<td>b) Exports</td>
<td>207.97</td>
<td>364.62</td>
<td>190.15</td>
</tr>
</tbody>
</table>


The Corporation has adopted a multi-dimensional approach in the area of marketing and has segregated its overall marketing activities into various segments, one of them is internal marketing.

#### 4.1.1.3.3.1 Domestic Marketing

Domestic marketing of the products of small-scale units is undertaken with a view to sell their products at remunerative margin. To obtain a reasonable price, the units require various support services as they are to compete with large sector and alongwith multinational concerns. Necessary support services include ensuring of standardisation and quality control, floating of brand name, creation of awareness among purchasers of products manufactured by small scale units through aggressive publicity, continuous upgradation of technology to increase productivity and sophistication of products of the small units, to enable them to produce right goods at the right price for the purchaser.
The corporation has taken up internal marketing of the products through a number of innovative approaches like:

a) Consortia marketing
b) Agency marketing
c) Market Development Centres

a) Consortia Marketing

In its consortia approach the corporation associates a number of small-scale units producing the same products and forms a consortium. The Corporation scans markets and secures bulk orders for various consortia. The orders are then framed out to the small-scale units in tune with their production capacity. Testing facilities are provided, or arranged, to enable the units to improve and maintain the quality of their products so that their supply conforms with the standard specifications. The corporation has successfully managed to form consortia of units producing items like hosiery, handmade paper, electric fans, electric bulbs, T.V.s etc. The corporation holds stock of goods and in this, it directly buys and sells for a group of units so as to provide a cushion against supply and demand fluctuations.

The Corporation also at times takes up marketing of individual small-scale units products, consumables and consumer durables, whenever a small-scale units approaches for marketing assistance.

b) Agency Marketing

The corporation has been marketing machinery and equipment on
agency basis. For example, it markets PVC extruders produced by Engel India Machinery & Tools Ltd. Calcutta. Wood Working Machine produced by A.O.K. Wood Working Machines, N.Delhi etc. The Corporation is acting as sole selling agent of these producers.

c) Market Development Centres

With a view to expand the package of its Marketing Assistance, the Corporation has envisaged to set up Market Development Centres in important cities of the country. Initially, it is proposed to establish five such centres. These centres will provide display facilities and will also act as sales and promotional outlets for small scale units products.

Under the future programme National Small Industries Corporation intends to:

a) cover domestic appliances, hand-tools, malleable castings, light engineering products, soap,

b) provide marketing intelligence within the country and abroad for the benefit of the small-scale sector,

c) assist small-scale sector units in their survey of the markets and marketing research,

d) provide the necessary technological inputs in developing and standardising products in the small-scale sector,

e) establish raw material banks to meet the requirements of the small-scale sector in ferrous and non-ferrous raw materials. 23

4.1.2 Export Marketing

Export marketing is a function or activity of selling the product to foreign customers. Professor C.B. Agarwal has defined it as "it is selling to your customers abroad, it is pushing forward your goods in the overseas market." Selling abroad is a highly complex activity. It is complex because, there are different rules and regulations of various countries, business practices also differ widely and even language is not the same as that of the exporter. International competition in terms of price, product, quality and standards, packing and packaging, credit terms, delivery schedules and after sales services facilities, to mention a few is severe, thereby, rendering the task of export marketing more and more varied, hard and complex.

Thus, export marketing is not similar to domestic marketing. "Exports are not merely an extension to domestic trade." The difference between domestic marketing and export marketing is based on the fact that export marketing activities take place in more than one country representing a different type of market having its own peculiarities in taste, customs and business practice.

4.1.2.1 Selection of Prospective Market

The question of selecting a potential market for export is of prime importance. Mr. Paras Ram in his book "Export, what, where and how" has rightly remarked:


26. Ibid.
"Though the entire universe can be potential market for one's products, it may not be possible and worthwhile to export to world as a whole. Each country has its own peculiarities, thereby, necessitating individual and specialised approach. Moreover, one can not sell every product to every country".27

It is necessary for an exporter to approach only those markets where his products are demanded. For this purpose the exporter must know the market into which he desires, to enter. The exporter can know the market by gathering and analysing information regarding the nature of the market, the demand and supply position, buyer's preference, prevailing prices, import tariffs and local regulations, and nature of competition.

Small-scale units are flexible in product adaptation because of their small size. That is why the items which are frequently modified according to the customer's demand can be produced by them and should be undertaken for export production.

The export market is a highly competitive market, it would therefore, not be worthwhile to try to export the products of all the small-scale industrial units. It is desirable to identify some and select a few export-worthy, small-scale units. This should be done on a continuing basis. Once the products and units have been identified, every effort should be made to develop the export of the products of these units.

As mentioned earlier, export marketing is a highly complex activity. It is different from domestic marketing. The techniques

followed are different. The magnitude of its complexities requires a sound organised set up, adequate financial resources and personal expertise. Small-scale industries due to the limited resources and numerous problems involved in export marketing are unable to follow their own marketing strategy. They have to depend on a strategy bound on the mutual co-operation among themselves, they require a co-ordinated marketing approach. Small-scale industries in their export effort need government's patronage and assistance at every stage of their operation.

4.1.2.2 Marketing Strategy

Selection of suitable marketing strategy for small-scale industries is very important. The export marketing strategy involves several complicated functions such as customer analysis, technical changes, competition analysis, overseas marketing surveys and market research, export pricing, procurement of export credit facilities, quality control and packaging, export documentation, marine and air insurance, fixing of distribution channels and appointment of agents abroad, sales promotion and publicity techniques. The complexities and magnitudes of all these problems require a large organisational set up, adequate financial resources and personnel with requisite expertise. In the present situation it is rather difficult, if not impossible, for small-scale industries with limited resources and capacities to perform effectively these complex functions of export. Thus a suitable marketing strategy which small-scale exporters can follow is to export their products through assistance from government patronised marketing agencies such as National Small Industries
Corporation, State Trading Corporation of India, Trade Development Authority of India, State Small Industries Corporations, State Export Corporation etc. or they should come together and pool their resources to create their own market groups, such as consortia.

Exports have their own attractions. But unfortunately, very few entrepreneurs care to equip themselves adequately to export successfully and satisfactorily. The small entrepreneur should, as far as possible, utilise the services of an export house. In fact he should be helped to build up the right type of export houses, which have specialisation in the promotion of the production of small scale industries in foreign markets. All export houses can not do justice to the products of small sector, nor are their operations likely to be of real benefit to small exporting units. Hence the need for specialised export houses capable of promoting and pushing the products of small industries in overseas markets should be emphasised.

4.1.2.3 Export Performance by Small Industries

Small-scale industry sector has been receiving increasing emphasis in the export-import policy of the country. Much stress has been given to small-scale industries to improve their production technologies and adopt international standards, in order to compete in the world markets, thereby, earning maximum foreign exchange. Actually the exports of small-scale sector have been continuously expanding. As such, the share of small-scale sector in the total exports shows a perceptive increase over the years.
The available information shows that, the volume of exports by small industries has grown substantially during the last decade. The share of export from small-scale industries in 1980-81 was Rs.1643 crores out of the total Indian exports worth Rs.6711 crores. In 1981-82 this increased to Rs.2070 crores in the country's total exports of Rs.7803 crores and further accelerated to Rs.2094 crores in 1982-83 of the total Indian exports of Rs.8834 crores. On an average the small industries have been maintaining a share of 25 percent in India's export trade.28

Comparing the small industries export performance with the total production of the sector it is observed that despite an impressive continuous growth in output, this sector has been maintaining an average export performance of about 6 percent of its overall production during the last few years. During 1978-79 the total output of the small industries was Rs.15790 crores and exports Rs.1069 crores. During 1979-80 the production of this sector increased to Rs.21635 crores and exports to Rs.1226 crores, during 1981-82 against an output of Rs.28060 crores, the export performance was Rs.1643 crores.29.

During the year 1985-86 the small-scale sector made substantial contribution not only in augmenting the industrial production but also in exports from the country.

The export of small industry products, on the basis of

28. The Economic Times, Wednesday, January 30, 1985, New Delhi, p.II
29. SIDO, 1982-83 Report, p.49

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information collected from the Export Promotion Councils, is placed at Rs. 2580 crores during 1984-85 as against Rs. 2219 crores during 1983-84 as per table given below;

Table 4.9 : Share of the Small Industry Export in total export of the country. 

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Export from India</th>
<th>Exports of SSI</th>
<th>% age share of SSI in total Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979-80</td>
<td>6,458.76</td>
<td>1,226.31</td>
<td>18.98</td>
</tr>
<tr>
<td>1980-81</td>
<td>6,710.71</td>
<td>1,643.21</td>
<td>24.48</td>
</tr>
<tr>
<td>1981-82</td>
<td>7,805.80</td>
<td>2,070.61</td>
<td>26.52</td>
</tr>
<tr>
<td>1982-83</td>
<td>8,907.75</td>
<td>2,045.03</td>
<td>22.96</td>
</tr>
<tr>
<td>1983-84</td>
<td>9,872.10</td>
<td>2,219.23</td>
<td>22.48</td>
</tr>
<tr>
<td>1984-85</td>
<td>11,493.72</td>
<td>2,579.94</td>
<td>22.45</td>
</tr>
</tbody>
</table>


And further, during Seventh Plan period, the production is targeted to increase from Rs. 50520 crores to Rs 80220 crores (at 1984-85 prices ), export from Rs. 2,350 crores to Rs. 4,140 crores.  

4.1.2.3.1 Share of Non-traditional Products

What is more, the percentage share of non-traditional products exports of the small-scale sector has been progressively increasing.

30. Government of India, Seventh Five Year Plan, Para:4.60
FIG. 4.2. SHARE OF SMALL INDUSTRY EXPORTS IN TOTAL EXPORT OF INDIA
and that of traditional products exports has been decreasing in recent years. The exports of non-traditional products from small-scale sector were Rs. 1487 crores (90.49 percent) during 1980-81, Rs. 1882 crores (90.9 percent) during 1981-82, Rs. 1844 crores (92.83 percent) during 1982-83. For the corresponding years the exports of traditional products by this sector were Rs. 156 crores, Rs. 188 crores and Rs. 150 crores, respectively.

Noteworthy feature of export performance by the small-scale sector is that the small industries have entered almost all the non-traditional export product groups and are effective members of the Export Promotion Councils of such product groups with a sizeable volume of exports to their credit. Besides these direct exports, products of a large number of small-scale industries are being exported indirectly by merchant exporters, export houses and other channels for which the information is not available.

The export performance of the small-scale sector is quite laudable. However, taking into account the potential in the international markets and performance by small industries of other countries the achievement of Indian small-industries may not be that impressive. Of course, they are capable of much better performance but, it entirely rests with various authorities responsible for the promotion and development of export oriented small industries.
Table 4.10: Exports of Traditional and Non-traditional items by Small-Scale Industrial Units

<table>
<thead>
<tr>
<th>Year</th>
<th>Value of exports of traditional items (Rs crores)</th>
<th>Value of exports of non-traditional items (Rs crores)</th>
<th>Total value of exports (Rs crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
<td>156.20 (9.5)</td>
<td>1,487.00 (90.5)</td>
<td>1,643.20 (100)</td>
</tr>
<tr>
<td>1981.82</td>
<td>188.10 (9.1)</td>
<td>1,882.51 (90.9)</td>
<td>2,070.61 (100)</td>
</tr>
<tr>
<td>1982.83</td>
<td>149.43 (7.3)</td>
<td>1,895.60 (92.7)</td>
<td>2,045.03 (100)</td>
</tr>
<tr>
<td>1983.84</td>
<td>166.05 (7.5)</td>
<td>2,053.18 (92.5)</td>
<td>2,219.23 (100)</td>
</tr>
<tr>
<td>1984.85</td>
<td>225.93 (8.8)</td>
<td>2,354.01 (91.24)</td>
<td>2,579.94 (100)</td>
</tr>
</tbody>
</table>

Note: Figures in brackets give percentage to total.

Source: Small-scale Industries in India, Fact and Figure, SIDO, 1987, P.14.

4.1.2.4 Encouragement

An average progressive small industrialist, not only in the metropolis but even in a small town, is very enthusiastic about exports. He has spare unutilised capacity to cater to the overseas markets. He is to be convinced that though he can not get the prices he gets in the home market for his product sales, he can afford to sell at lower prices for overseas buyers since his overhead costs have already been recovered on his home market sales and that he can charge
only his direct costs. With such a strategy his export quotations only on direct costs can fetch him good profit margin taking into account the export incentives like cash assistance, import replenishment, duty draw-back and other benefits provided by the government.

4.1.2.4.1 Pre-requisite

After having gained his confidence that catering to the export market is profitable, and feasible proposition, he needs systematic directive for locating overseas markets for his products. This involves two aspects:

I- Indetifying the countries that would be receptive to the products of the small-scale industrialists and

II- Locating the names and addresses of foreign importers.

A number of organisations publications both in India and abroad are helpful in this direction. The small industrialists need guidance to contact them, obtain the lists of importers from them, weed out sundry and fake importers and prepare a select list.

After having collected the list of overseas importers it is of utmost importance to make preparation toward presentation. Being used to home market selling which has been, by and large, a seller's market, the small industries are not aware of the importance of presentation.

Presentation in the wider sense means the way in which the product is offered to the buyer and includes;
1) Letter heads and envelopes—how they are designed, typed and worded.

2) Sales literature—leaflets, catalogues, price lists—how their matters are designed.

3) Packings, labels, presentation of the product itself, its design, finish and size, etc.

The small industrialists need consultation services to improve their presentation and tailor-make it according to the nature of the product, nature of the overseas markets and final users of the product for effective penetration in the export markets.

After the stationary, sales literature, price lists, etc. are ready, the small industrialists would need guidance on how to approach and deal with the foreign importers. Who may ask for credit terms. Though without credit, business may not materialise, it is risky to provide credit and therefore, it is necessary to ascertain the credit worthiness of the buyer and obtain credit insurance policy. Small industries need consultancy on how to ascertain the credit worthiness and obtain credit insurance. The small industrialist is completely blank about the documentations and procedures involved. He has therefore, to be nursed with the requirements at least in the initial export orders.

4.1.2.4.2 Consultancy

Despite tremendous potential for export of small industries products, the average small industrialist is apprehensive for catering
to international markets due to the lack of know-how with him in export marketing. Institutional assistance in export consultancy to the small industries is therefore, absolutely essential to fully tap the export potential of this sector.

Among the different export promotion agencies in the country the most suitable for this consultancy services is the banking sector, nationalised banks are commercially very well equipped to provide the required information and are already working in the close liaison with the small industries for their credit and requirements. What is more, the branches of the nationalised banks have reached to the interior corners throughout the country where the small industries have been working. On their part, the small industries should not mind paying a small service charge for the services of the bankers.

4.1.2.5. Institutional Assistance

4.1.2.5.1 Role of State Trading Corporation

Right from the middle of the Third Five Year Plan during which the real thrust on the development of exports was given, the government of India created a new Ministry of International Trade, and even established a full-fledged division as Export Aid to Small Industries (EASI) in the State Trading Corporation to look after the commercial aspects of exports on behalf of the small industries. It also established export promotion cells in the all-India network of the Small Industries Development Organisation of the Government of India.
The main objective of such a set up, in a nut shell, was that the Small Industries Service Institute in the states would locate those small industries which are capable of handling exports, provide them techno-economic and management guidance to improve the quality and competitive marketing consultancy services to equip them to cater to international market and introduce the export Aid to Small Industries (EASI) scheme. The state Trading Corporation on its part would locate foreign markets for such units, secure export business and handle the order on behalf of the small industries.

Once the small industry exporter is well trained in international trading and convinced about his profitability he will, on his own, continue with exports without the assistance of State Trading Corporation and Small Industries Service Institute, who were expected to slowly taper off and withdraw active involvement with such trained exporters and direct their assistance to new potential small industries exporters.

In the middle of 1960's when there were practically no facilities for training and consultancy in export marketing, the Small Industries Service Institute in collaboration with State Trading corporation had undertaken dozen of such training programmes all over the country and provided thousands of export marketing consultancies to train hundreds of small industrialist to enter export markets.

It is already mentioned that the major share of State Trading Corporation's exports originates from small industry units. In the case of various manufactured products the corporation lends its hand to small-scale units by forming consortia. To all these members, State
Trading corporation allocates export orders basing on their supply potential. Besides, the corporation has also been taking several steps to improve the skills and production in small-scale industries. While doing so, the corporation has been supplying technical, financial and input assistance to them.

4.1.2.5.1.1 Services Rendered by State Trading Corporation

Following are some of the services the corporation has been rendering to the small-scale industry sector:

- Undertaking actual export marketing, that is sending offers to foreign parties,
- Forwarding samples,
- Finalising negotiations,
- Contracting and post-contractual follow up work,
- Promotional activities such as;
  a) undertaking market research
  b) market development tours
  c) participation in fairs and exhibitions
  d) undertaking publicity
  e) packaging assistance,
  f) advisory services on trade environment
  g) technical advice and guidance
  h) brand promotion, etc.
4.1.2.5.1.2 Task Force

Recently, State Trading Corporation with the help of National Alliance of Young Entrepreneurs have established a Task Force which is essentially an advisory body to advise on strategies, Policies and programmes for promoting exports from small-scale sector with State Trading Corporation assistance. The Task Force will identify the items on which State Trading Corporation can provide assistance to the small-scale sector for exports. It will also identify the nature of services which can be provided to the small-scale industries by State Trading Corporation directly or in collaboration with the related agencies at the centre and states.

The Task Force will also prepare a plan for development of skills and potentials of export-oriented units of the small-scale sector so as to maximise exports from small-scale sector.

Various states agencies such as Small Industries Development Corporations, Leather Industries Development Corporation, Fisheries Corporations etc. are engaged in providing the needed infrastructural facilities to the small and medium enterprises in their respective states. They are primarily oriented towards production. India's export expansion plans require concerted and integrated efforts by all agencies and undertakings connected with export marketing as well as export production. Competition, overlapping functions and duplication of efforts should be avoided or reduced to the minimum possible extent.
With this objective, State Trading Corporation has already embarked upon a programme to select export-worthy small-scale units from each state by forming working groups with the active co-operation and assistance of various states agencies so that the units can be selected and all possible assistance may be provided by State Trading Corporation to eliminate exploitation by middlemen and create avenues for increased exports.

4.1.2.5.2 Small Industries Development Organisation

Export development in relation to the small-scale sector has been accorded high priority in the export strategy of the country. It does not only help in earning foreign exchange, but it also results in creation of more employment opportunities. It helps quality improvement of the products also. Therefore, Small Industries Development Organisation (SIDO) provides assistance to promote exports of small-scale industries through its network of Small Industries Service Institutes and Extension Centres. Such activities include dissemination of information about foreign markets, consultancy services in matters of export procedures for claiming replenishment, draw-back and other incentives, identification of small-scale units already possessing necessary equipment and skills to undertake production of items having export potential, organisation of training programmes on export marketing, meetings and seminars in export promotion, etc. Training programmes on Export Packaging also organised by Small Industries Service Institute in collaboration with Indian Institute of Packaging.
Small Industries Development Organisation (SIDO) also paid special attention to the problems of small-scale exporting units especially in the field of import entitlement, cash assistance, duty draw-back etc. and took up these issues with the concerned authorities.

Small Industries Development Organisation (SIDO) actively collaborated with other central and state level institutions in their export promotion programme especially for small-scale industries. Efforts were also co-ordinated in collaborating with National Small Industries corporation (NSIC), State Trading corporation (STC) and various Export Promotion Councils for identification and enlistment of various units to promote the export of products manufactured by them.

4.1.2.5.3 National Small Industries Corporation

The services rendered by National Small Industries Corporation (NSIC) on the export front are of a wide magnitude. The corporation assist the small industry in the export of their products as well as on projects on turnkey basis to the foreign buyers through mail contacts, participation in Exhibitions in India and abroad, buyer-seller meets, sponsoring of study-cum sales teams etc. 31

It extends broadly the following assistance to its associate units, financial advances against despatch of materials, raw material financing, import under duty exemption scheme, financing of remaining

31. The Economic Times, New Delhi, Tuesday, September 4, 1984, p.5
machinery and equipment, import of raw materials, components, consumable etc, complete export documentation work including replenishment licence.

The total export during the year 1985-86 amounted to Rs. 200 lakhs covering export of products valued Rs. 136 lakhs and small industry projects valued Rs. 64 lakhs.32

4.1.3 Consortia

There is an urgent need for extending the marketing umbrella to the small-scale sector. There can not be commercial production if there is no market. No matter how excellent is the product, it will not sell unless there is demand for it. Small-scale entrepreneurs very often do not take into account the market potential and the marketing environment, with the result that they fall sick. The basic problems of small industries, which include marketing are highly interrelated and can be solved only within the frame-work of comprehensive strategy. Whatever promotional measures government takes, the small-scale sector continue to be at a disadvantage in the area of marketing. With modest resources in money, materials and manpower it lacks the inbuilt strength of big organisations to survive the impact of the fast changing economic environment.

The production and financial capacity of small industries are limited, so is their sustaining power and competitive strength. they can compete individually if the product is special, and when the

demand outstrips supply. In the case of products which are not special and in lines where competition, particularly from the large scale sector, is fierce, individual marketing becomes difficult. To compete against established large and even small units is not an easy job. The very small size of operation's is then a handicap. But if several small units decide to pool their resources, their aggregate capacity would be larger than of even the largest industrial unit. In fact, in some lines of production, the total installed capacity in the small-scale sector is higher than that of a large sector. Small units can then compete collectively and secure a share in the market, legitimately belongs to them. However, a collective effort of this type can succeed only if the participants are prepared to sacrifice a part of their individuality. This is more true in foreign markets, where one has to compete not only against all the other countries, but also against a vast domestic market. Extensive organisation is needed to reach potential areas, and to hold one's own against the unfair competition from the large-scale sector. It is in this context that the consortium ideas are relevant. Government purchase from small industries would also go up tremendously if small entrepreneurs adopt this consortium approach. They would eliminate, to a great extent, competition amongst themselves in their own sector and face confidently and successfully the competition from other sectors.

A group of producers in this sector could join hands to produce a variety of items under a popular brand name and undertake nation wide marketing with reduced overheads per unit. The state governments could assist by setting up corporations devoted exclusively to marketing of
Actually, in a number of countries, export marketing groups or export consortia have been operating successfully. Their functioning has demonstrated what can be achieved by the development of specialisation of the export work at the central or group level relieving the individual units, specially the small units, from the complexity of export marketing and yet making available to the participating units all the benefits occurring from the combined and centralised operations.

Some argue that it would be helpful to encourage small-scale industries to create their own consortia, combines or cartels for the purpose of marketing. This can be done preferably with identity of interests or lines of manufacture. Unfortunately, this approach has not so far been accepted because of the lack of mutual understanding among the small-scale manufactures. The tendency is manifested in trying to maintain secrecy of operations, discouraging contact where they may result in leakage of information to a potential rivals.

4.1.3.1 Advantages

a) Developing countries generally suffer from a shortage of experienced international marketing specialists and lack in qualified personnel in the technical aspects of international


business, such as overseas market research and export packaging. It is beyond the financial capability of individual firms, specially small firms to employ such highly paid experts. What is beyond the capacity of an individual firms is within the reach of a consortium.

b) Consortium approach has helped in upgrading local skills. It has not only helped to diversify the range of export goods and improve their quality, but can also be instrumental in developing more sophisticated export goods.

c) consortium approach helps in taking advantage of economy of scale.

d) The consortium approach gives bargaining strength which is not possible in the case of an individual firm. It also provides an effective channel for government industry communication.

4.1.3.2 Disadvantages

a) The first problem relates to financing, is that, who should finance a consortium? It is suggested that both government and members should finance it. This is quite logical as it is not only members who benefit but the nation benefits as well.

b) Members are often afraid of the security and confidentiality of their know-how.

c) Size of member firm is yet another factor inhibiting the growth of consortia. It should be ensured that larger firms are not allowed to dominate. Equitable formula should be evolved for sharing the business obtained.
The 14th report of Estimate Committee on small-scale sector rejects the suggestion for the creation of the new body at the central level. The committee advocates a consortium approach by industries both for export and internal marketing. The problem of marketing requires much more fundamental treatment than such ad-hoc measures. Some experts stress the need to form marketing co-operatives in the small-scale sector. It is, however, expected that the information of trade-wise associations would bring a number of industries under one roof.

4.1.3.3 **Benefits to Consortium Members**

The advantages of individual members would be as follows;

a) Penetration of totally new export market and access to new types of buyers.

b) Reduction in seasonal fluctuation in business.

c) Reduction in the unit cost of products, increasing the overall profitability.

d) Alternative to export houses: Exporting through a consortium is often a better alternative than selling through an export agent or an export house. The consortium is in many ways an extension of the member companies themselves, because it is usually owned by the members. Profits of the consortium ultimately go to the members.

e) Members benefit when consortium makes a profit on exporting products of the non-members.

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The efforts of the government notwithstanding, small entrepreneurs are not able to make such headway in organising themselves into export consortia or groups. So far, only two export consortia have been formed to export small industries products. One of them exports readymade garments, marine products and engineering goods and the other sells electrical goods.

4.2 Marketing Problems of Small-Scale Industries in Iran

4.2.1 Domestic Marketing

Before they come up, and for their existence, small industries need various supporting services, efficiently organised and promptly extended. Marketing guidance and assistance is one such services, which is increasinly expected by newly established small units in areas which are far away from developed metropolitan cities. These industries are often not in a position to carry on market research, which is an essential pre-requisite in the marketing process. To encourage a small entrepreneur to take up the production and marketing of new products, the government in the developing countries and their specialised institution should collect, collate and disseminate up-to-date ad reliable market intelligence on a regular basis in the absence of which an entrepreneur would often operate either in the dark or wander on an uncharted sea. As a matter of fact, manufacturing units should be guided into the unexplored areas of assured profit. This is the rationale behind the Market Intelligence Bureau, which collects and disseminates relevant information about potential and profitable market areas.
Marketing is a crucial area. Units with a weak marketing infrastructure are more susceptible to frequent and chronic illnesses. Units with a strong marketing set up stand up better to a rough weather, including recession. The organisation design should be planned for a difficult marketing situation. The marketing team should be dynamic, aggressive, in tune with contemporary needs and better than that of competitor.

But, unfortunately, small-scale industries in Iran while marketing their products, face almost the same type of problems, like, quality control, competitor, lack of market research, design, packaging and distribution. This is normally due to the inherent weaknesses of small-scale industries. Since there is no strong set up to care for the interests of small-scale industries in Iran and assist them in their problematic areas, these weaknesses may add up and the small industries may face greater difficulty in marketing their products.

The small-scale industries in Iran while marketing their products face another hardship that of competition, which their counterparts in India may not experience so strongly. This is the competition from imported products.

Putting aside the direct marketing, which brings a lot of trouble for small industries in Iran, the other alternatives for small industries products may be as follows.

I- Government Purchase Programme

II- Complementarity relation

4.2.1.1 Government Purchase Programme

The majority of the countries of the world, even the highly industrialised ones, have found it absolutely necessary to create governmental organisations aimed at rendering efficient help to small industries in governmental procurement. The reason being that the participation of these industries in governmental purchases will not only strengthen the industrial sector essential to the economy of the country but, by imposing certain quality requirements, it will generally raise the quality of the products of the small industry.

In order to achieve these aims, there should be an organisational set up for small-scale industries which must,

a) Collaborate very closely and efficiently with governmental agencies and secure as big a share as possible, of their purchase to small business.

b) Help building up and streamlining of the small business by liberal, low interest loans.

c) Help small business to be properly skilled and prepared to meet the governmental requirements, quantity and quality-wise.

If properly shouldered, the small business can supply a great amount of quality products to the government. The Iranian Purchasing agencies (governmental ones) are, in their great majority, reluctant to deal with the small industries fearing (some times, but not always and rightly so), that their requirements and standards cannot be met with quality and quantity-wise, by the small industries. On the other
hand, they do not even realize the existing supply potential of the small business. Here comes the great opportunity for the establishment of an organisation for small-scale industries of Iran. The organisation must also have the means to:

1. Satisfy the government which should get "its money's worth" by getting goods from the small business.
2. Satisfy the small industrialist by helping him with money, advice, managerial and technical knowledge and also by getting touch with and sell to the governmental agencies.

4.2.1.1.2 Measures to Make Small Industries Get the Optimum Share of Government Purchase

1 - Creation of a Central Purchasing Organisation

At present, government purchases are done in a disorganised way through numerous independent purchasing agencies. In the present conditions it is extremely difficult to assure the small industries of selling fair quantities of their products to the governmental agencies. This has to be changed.

2 - Small Industries Set-Aside Programme:

The Purchasing officials of the major civilian and military buying offices should review the proposed purchase lists to be obtained from the small industries and determine which ones can be reserved to be purchased exclusively from small industries. In India nearly 409 items are reserved for small industries only.
3 - Price Preference

Besides the "set asides", there should be a governmental policy giving a certain price preference to the quotation of small business over the acceptable quotations of the larger scale units in respect of tenders for which the quotations are invited both from small and large-scale units. In India 15 percent preference is given to small scale units. This incentive is fully justified by the necessity to upgrade the small industries, the fact that the small business is working under difficult financial conditions and other constraints and that small industries give employment and training to a large labour force.

4 - Management Development

This is a programme which places emphasis on the preparation of the small industrialists for business management and ownership responsibilities to be assumed where business opportunities exist, or will exist in the near future particularly when a company is modernised and well-qualified to meet the governmental procurement requirements.

5 - Sub-contracting

In many cases the great opportunity for the small industries will be more in sub-contract than in prime contracts, but the procurement agencies and the organisation of small industries must fully support this scheme. In order to be able to make the prime contractors accept the idea of sub-contracting they must both realize that this is a
strong desire of the purchasing agencies and feel that in this way they can make profit and have reliable small sub-contractors.

4.2.1.2 Establishment of Complementary Small Industries

Two main types of complementarity have to be distinguished: 36

(i) The indirect complementarity described as a division of tasks between small and large manufacturing units and which comes about without direct agreement or contracts. It results from the sorting out process of competition. There are ways to encourage small factories to adapt competitive co-existence with large factories by seeking out those links of activity where they have cost advantages and can compete effectively with the large factories or complement them while avoiding direct competition.

A better policy is to encourage a continual adjustment by such means as:

1 - making better economic and technical information available to entrepreneurs so that they are more rapidly and accurately aware of opportunities and costs,

2 - upgrading the competence of management in small firms by management-training, industrial consultancy services and other methods.

(ii) The direct complementarity may be defined as a relation between manufacturing firm in which one systematically uses the product of another as an input into its own manufacturing operation. Such relations are a characteristic feature of modern industrial structure, and may grow to a dense network of relations among small factories and also large and small factories.

The Government of Iran is in an excellent position, through the control of the large production units, to promote the establishment of complementary small industries. In particular a direct complementarity between large and small industries which must be aimed at, because of two reasons.

First of all the small factory consumes the products of the large factories as a basis for its own operations. The interest of the large scale manufacturer in promoting wide-spread and effective use of his product by other manufacturers often leads him to provide technical advice, to perform research and to disseminate the results to his customers. In industrialised countries this is one of the most important sources of technical advice and assistance available to small industries.

Secondly, and of even greater importance, the small factory operates as a sub-contractor for the large units supplying them with components and spare parts of very specialised nature. There are two main types of sub-contracting relations. 37

a) the independent sub-contractor which acts more as a buyer.
b) the small entrepreneur who, even if legally independent, is completely dependent on one big customer which takes all or nearly, all of its output.

4.2.2 Export Marketing

There is absolutely no doubt that a considerable export potential exists in the small industries of Iran, and perhaps larger than in many countries which are already exporting sizeable volumes of the products of their small-scale industries. But "potential" does not mean "actual results", and the results will be totally insufficient if the government does not help overcoming all the problems and difficulties faced by the small industries venturing into the highly competitive export markets.

One of the main problems faced in promoting exports of products of small industries of Iran is an alarming lack of knowledge of export market techniques among the small manufacturers. So government assistance is needed to provide adequate market information and guidance, at least in the early stages of the export efforts of the small entrepreneurs. He must be advised in respect of the type and quality of his product, specification, design, prices, quantity and the markets where he can sell. They must be identified for him. It is a time-absorbing, difficult task but is highly rewarding. It must also be remembered that the intensive promotion of some selected industries with high export potential has proved to be more successful than spreading the limited resources too thinly over a wide range of industries.
It is also a fact that the Iranian small manufacturer simply does not know foreign trade. He would like to export but it is one of the greatest mysteries of commercial life for him. He can not believe that he can sell his products to more advanced industrialised nations. These industrialists, left alone, although are keen to sell abroad, simply do not know how to do it, and the language problem is another stumbling block, or rather a definite obstacle.

The situation in which the small industry in Iran, as far as exports are concerned, find themselves happened to other countries in the initial stages of industrialisation. The development was initially directed twoards meeting the needs of the domestic market, and if possible import substitution, and the government must promote extensively the exports of goods manufactured by the small units. But it must be remembered that no developing country was able to enter, efficiently, the export phase of the small industries without a full fledged help of the respective governments.

4.2.2.1 Finance

Another great obstacle for potential exporter, and existing small-scale industrial exports are the inadequate financial resources. The requirements of export financing are heavy for a small unit, as these impose additional strains which can not be easily overcome by the existing facilities (if any) provided by commercial banks in the form of pre-shipment, and post shipment credits. This is particularly difficult because small manufacturers often lack the adequate collaterals. To enable them to book orders, and even more, extend
credit facilities to foreign importers, and also meet the various expenses of export production and marketing, such as purchase or import of raw materials, cost of transport, cost of labour, overseas advertisement, an adequate capital is indispensable. Different ways have been adopted in other developing countries to meet this necessity and they usually include special governmental financial institutions providing loans for export production and marketing.

All these facilities, a hundred percent pre-requisite for the development of exports of small-scale industries, are lacking in Iran, and are making exports of these industries very difficult, often impossible. A complete revamping of financial policy must be undertaken and necessary measures must be adopted to relieve the situation.

4.2.2.2.1 Quality

To achieve optimal quality, production processes must be subject to strict export standards. Quality controls and cost controls should be undertaken at every stage of production, beginning from the selection of the raw materials and ending in presentation and packaging of the product. In many developing countries, including Iran, lack of technical know-how and production technology, the absence of an integrated and comprehensive institutional and economic frame-work to facilitate the export promotion of small industries products, are a handicap and make it an urgent and indispensable necessity. This demands for an adequate governmental institutionalised assistance.

4.2.2.3 Trade Promotion

Adequate trade promotion abroad is also vital to a successful promotion of the exports of products of small industries in the competitive foreign markets. The resources of small manufacturers are totally inadequate to meet the needs of effective export promotion without a definite governmental assistance. For this reason, export promotional services in overseas countries are so essential. In other countries, they consist of efficient trade commissioner's services which help finding suitable buyers or agents, provision of the necessary publicity, assistance in trade fairs, trade displays, publications, buyers guides and trade missions.

4.2.2.4 Export Publicity

The production of export goods, of internationally accepted quality is naturally a pre-requisite, but it is not enough in itself. The Iranian goods must be known and made popular in foreign markets through various media of export publicity. This publicity should be handled by specialists. The special delegates of the Export Promotion Centre stationed in the important importing countries would be the best people to handle this part of the indispensable foreign advertising policy.

4.2.2.5 Steps to be taken

While some products of small industries, have often a good export potential, many specific problems have to be solved before they are actually exported.
The people incharge must be trained in rational management and export techniques. They must have up-to-date knowledge of techniques. The improvement of workers' skill will also be important to keep pace with improved techniques of other exporting countries, and customers, changing requirements.

For improvements the following steps should be taken:-

1 - Export Product Development

It pre-supposes the identification, location and administration of information on export opportunities through market researches and surveys. It involves the study of the product to be exported, so as to ensure an international competition of the final product in terms of both quality and price. It must assure the necessary inputs at competitive cost. Market promotion implies that an export is introduced, publicized and displayed to foreign customers through selected media so as to conform to the conditions of the export market.

2 - Procurement of Raw Materials

Small industries are unable to buy raw materials in bulk, and get special quantity discounts, nor do they enjoy the facilities of deferred payments usually allowed to large buyers. A governmental institution in conjunction with banks should assist small industrial purchasing co-operatives in providing facilities for collective procurement of raw materials. The draw back procedures, difficult to understand and handled by the small firm, should be taken care of for them.
3 - **Standardisation and Quality Control**

Product reputation is very essential in foreign trade. To establish this product reputation requires standardisation of specification, and uniformity of quality, both of which call for strict quality control. Quality products are an incentive for the buyer, but only repeated quality can win the confidence of the foreign clients and guarantee a steady, increasing business.

4 - **Presentation**

A useful product will find buyers abroad as long as it is very well presented, is of good quality and sold at an attractive price. The presentation is often as valuable as quality, particularly in attracting new customers.

The domestic presentation is generally not sufficient when it comes to exporting. Presentation, must include the right sales literature and proper appearance of the commercial letters.

5. - **Trends in World Market**

Up-to-date techniques and skills are important to keep pace with the customers' changing tastes and requirements. All the trends of the world markets must be carefully studied and quickly followed up. It is important to find, well before hand, which new articles can be imported in the future. To predict changes in consumption, fashion, style, and tastes prepares the exporters to face any competition.
Due to limited experience and means the small industrialists are unable to make their own market surveys, and are unable to locate the suitability and value of their product in the world markets, and this is where he must be helped and advised.

6 - Locating the Markets

A small manufacturer does not know where to export, the sizes of the markets, the import regulations, the range of qualities and prices in the countries where he wants to export, the marketing channels, trade terms and discounts, payment procedures. He also can not screen his selling capacity and business integrity. All these difficulties must be overcome and all the questions answered. This can be done by a specialised agency, by export houses, or by creating a state trading corporation which will buy from these manufacturers and take care of their sales abroad.

4.3 Conclusion

Marketing is of outstanding importance. It is a key to the rationalisation of production and helps in improving quality standards, productivity and economical purchasing. The future of a large number of small-scale industrialists who deal directly with consumers depend on the marketing mechanisms in operation. It is, therefore, absolutely essential to rationalise the marketing system by reducing the number of middlemen, so that the entrepreneur may sell at a competitive price, and at the same time, get a good return on his investment that goes in the manufacture of his products.
Some small industries have good prospects of selling their products in international markets. If they can not develop a consortium for the export of their products, they should at least associate themselves with and support an export house. Well equipped and highly professionalised export houses are indeed necessary, if the products of small industries are to be established in overseas markets. There is a distinct need of large, strong, high voltage and high resources export houses, which are specialised in the promotion of the export of the products of small industries.

It can be mentioned that a network of export promotion agencies is working in India providing several concessions, incentives and assistance to small-scale industries in order to boost up their exports. But the volume of exports from small industries and lack of desire on the part of small industrialists to enter into the export trade indicates that the available export promotion measures are not sufficient. There is further need to supplement them.

A comprehensive programme to develop the small industries is the greatest problem for Iran. But to achieve this aim, the country must have a clear cut and definite policy and do what other countries have done to create a modern, dynamic, exporting small industry. This can never take place untill important steps are taken and a lot of money and know-how is invested to make the small units "exportable" technically and commercially, the so called technical and marketing modernisation.

There are numerous ways to assist the industrialists in their export drive. They require not only the adoption of particular
measures to specific purposes but also a combination of measures in a coordinated and integrated manner in order to get optimum results.

All Iranian small industrialists should avail facilities offered to the exporters by the government. They should know which institutions can help them and how.

They should know everything about the financial facilities, fiscal incentives and other advantages.

They should be aware of the world commercial network of the government, with all details.

They should know that export will not only increase production and consequently the lowering of the cost price, but also modernisation and quality improvement of their goods.
CHAPTER V: MANAGERIAL PROBLEMS OF SMALL-SCALE INDUSTRIES IN INDIA AND IRAN

5.1 Introduction

In the earlier chapter, it was pointed out that several factors are hampering the marketing (domestic as well as exports) of products of small-scale industries. In order to boost up the exports it is necessary to overcome these problems. Also the domestic marketing problems of small-scale industries have to be solved for the development and growth of small industries. This can be done by providing skilled and trained educated managers as well as other services and incentives to the small-scale industries. This chapter deals with managerial problems and managerial role in developing small scale industries.

A manager has to have professional approach based on knowledge of modern concepts of management, and leadership skills to introduce a planned change. A greater sensivity to the social environment of the organisation is urgently required now. He has to generate processes in the organisation through his leadership that will align different human forces into a common goal. He will have to create an environment in which mutual trust increases, communication is facilitated, a sense of involvement and identification with the goals of organisation is developed, and self-esteem of employees is supported. For the fulfilment of this task he has to have great deal of support and understanding from the owners of industry, and the government–machinery. The professional managers cannot bring about
change with a 'magic wand'. They have to make systematic efforts to change the culture of organisation, and develop the human resources through better training and education.

In any size of business, managers have to make a broad policy decisions. In small-scale units managers, being limited in number, may have to perform, at all levels, executives, administrative production, supervision, clerical and even provide some of the skilled and common labour. Managers in the small-units have, therefore, to meet two major requirements:

1. To have sufficient knowledge of most if not all the duties of management.
2. To perform effectively while finding time to think, and plan accordingly.

All the problems thus discussed earlier, are in one way or the other management problem underlying all of them is a basic problem facing all managers, development and training system. It was only at the beginning of this century that the realisation grew that the supply of managers could be increased and the quality improved. The industrially developed countries too look upon managerial skills as a key element in economic advancement. Investment in this area increases productivity.

Managers of small industries cannot be specialised in one area. As they must make their own decisions and are forced to live with these choices, whether they are good, bad, or indifferent, the managers are faced with dilemma. Because of the business's limited
resources, it can not afford to make costly mistakes, but because the organisation is so small, it cannot afford to hire assistance to prevent managers from making mistakes. Lack of sufficient time to give attention to the various managerial functions accounts for a vast majority of failure among small industries.

In the developing countries of the world, management is relatively more important factor. Technology and capital can be more imported, and the labour supply (at least the supply of untrained labours) is too often over-abundant. Yet the growth of managerial skills has not kept pace with, the aspirations of industrial growth. In developing countries a low absorption rate for capital is evident. It means that capital can be supplied faster than the economy can supply administrators and managers.

A steady supply of new and small firms is an important part of a healthy economy, either as a source of self-employment or as a service to companies and to the community or as the 'seed-bed' for the future. Inspite of this, little is known to academics, businessmen or government about the factors which determine success or failure, mainly due to the fact that the determinants are difficult to quantify and therefore, forecast.

5.2 India

5.2.1 Managerial Problems of small-scale Industries

5.2.1.1 Management Feature

In a small-scale enterprise, this is mostly an added special
factor to be taken into account while considering the investigation of management problems. Speaking of the management function there will be special conditions related to the joint ownership and management function. Firstly, it has to be emphasised that management function is a profession in itself. The one who manages his own business will find himself in a special situation, involving both advantages and disadvantages compared with other enterprises.

A strong point is that the flexible decision making process that is no conflict between owner and management interest in the decision. The demands on the manager to establish an efficient planning and organisation are great. He has great responsibility in which his autocracy does not lead to inefficiency.

In a larger enterprise with a larger number of owners the division of authority among management and owners will lead to a built in objectivity. The management has to motivate its decisions to the owners, report to them and account for its opinion regarding both the topical situation and future prospects.

In small enterprises there is no need of such action. But still there remains a need of objective judgements for right decisions. That is why there are greater demands on the manager to scrutinize his enterprise in a very critical way.

Even from management point of view one of the favourable characteristics of a small-scale industry is its flexibility. Bureacratic procedures and details in arriving at decisions are difficult to avoid when many people have to be consulted. The
small-scale industry has important advantages when quick decisions are needed. But, as it has been mentioned, it is important that small-scale industries should take not only quick decisions but also right decisions.

The other factor is, the manager of the small-scale enterprise most often the owner, is of vital importance in many other ways. It is he, who has the power and also the responsibility to make decisions vital to the enterprise’s other activities. The manager if he is the owner, can affect the enterprise by his desire to have his personal capital, out of which the firm is a part, at his disposal. He and nobody else has the primary responsibility for the functioning of the members of his staff.

The outstanding feature of small-scale industry is the personal character of its organisation and management in contrast with the predominantly impersonal management of large Corporations. Small industrial units, by and large, are started by persons who value independence and are desirous of obtaining the highest rewards for their initiative, technical skill and experience in a competitive market. The owner of a small industry values his undertaking for the job it provides him as well as for any return it may give on his invested capital. In many small units therefore, the proprietor or the director is himself the manager, technicalman and financer. Generally, therefore, the sector of small-scale industry consists of units in which the form of management is predominantly proprietary with industrial ownership. Though there is a fairly large number of small concerns which are organised as private limited Companies,
their percentage in the total number of small scale concerns in the country is relatively small.

The weakness may be, the problem of ensuring continuity of effective management in the event of a death and retirement of the head of the unit. This is one of the weakest features of the small owner-manager industries. It may cause many failures and represents a very real problem. This can be solved only if the owner-manager is willing to delegate responsibility providing training and experience for those who will succeed him, and thus ensuring continuity of management.

5.2.1.2 Delegation of Authority

Other common characteristics of small-scale industries, from a managerial point of view, are the lack of a clear definition of jobs and of clearly understood lines of authority and responsibility. This arises because the head of the small-scale unit tries to keep everything in his own hands as is unwilling to delegate his responsibility. Or it may arises because small-scale industries are originally family concerns and jobs had to be created in the management team for relatives who were not well-fitted to undertake the job responsibility. Although, formal and detailed definition of functions and responsibilities may be unnatural and unnecessary in the daily conduct of the business, the efficiency of many small-scale industries is impaired by lack of clear understanding of who is responsible for what and to whom.

Delegation is an inescapable necessity in large industries and it is being realized increasingly to be so by senior executives of such
firms. Obviously, with the number of employees being very large and
the nature of activities making demands on senior executives' time
delegation as a management practice is more or less forced on them.
Delegation will be involved in both, small-scale industries with large
number of workers as well as industries with small number of workers.

In small-scale industries with large number of workers one would
find various levels of hierarchy the more common being that of four
levels. The chief executive who will be the owner-entrepreneur, the
managerial level, the supervisory level and the workers.

What can the Chief executive in such industries delegate and to
what extend and to whom? The easiest choice will be to delegate
production activities to the production manager, purchase to the
purchase manager and quality assurance to the chief inspector and he
can delegate R & D to his chief designer and so on.¹

But in any kind of small-scale industries the chief executive or
in the other word, owner-manager would like to keep certain decision
making areas under his own personal control. These areas will include
dealing with customers, dealing with bank authorities and dealing with
government officials and financial control.²

5.2.1.3 Lack of Training

A very large population of managers in the developing countries
are managers of small under-takings. Most of them have had no formal

¹ Financial Express, New Delhi, Tuesday, October 11, 1983, p.4
² Financial Express, New Delhi, Tuesday, October 18, 1983, p.4.
training for the varied and difficult work they have to do. If they have had any formal training at all, it has been usually limited to one or at the most a few specialised aspects of their work. Many small-scale industries start as a cottage or workshop undertakings. In these cases, the head of the firms may be good craftsmen who may have little interest in understanding the commercial, financial and other aspects of this work. Other small scale units are started by merchants who have had experience in buying and selling but know little about production or managing a manufacturing company.

Therefore, many of the people engaged in small industries lack education and are not familiar with modern production techniques, management and marketing. They also do not show any interest and initiative in introducing new designs to attract business and usually stick to traditional pattern. In order to improve their competitive position, it is necessary to train them in business management, accounting and new techniques.\(^3\) It is clear that there is a great need to train managers for small undertakings both in the general principles of management and administration and in the more specialised functions.

5.2.1.4 **Productivity**

Productivity concept involves the full, proper and efficient utilisation of all the resources that go in building any industry. Productivity implies creating the best product with the minimum

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utilisation of industrial resources such as men, machine, materials, power in the money terms of investment. Productivity is a relative concept and the emphasis on labour productivity varies from country to country, from time to time and from industry to industry according to the level of development and the relative scarcity of different factors of production. Among the more specific management problems, productivity has been accorded the highest priority. Low productivity is often interpreted to be the result of:

a) lack of appropriate technical help;
b) inadequacy of spares and imported materials, and
c) insufficient appreciation of the importance of material management, critical flows and so on.

Lacking the requisite expertise and information and small firms make erroneous decisions. In most cases the immediate impact is on the short term financial base.

It is often felt that the main hurdle in expanding the productivity concept among small industrialists is the lack of management consciousness. The small industry proprietors do not adopt and implement productivity practices as they are more involved in day to day problems of securing raw materials or infrastructure facilities or in complying with the rules and regulations of the state authorities. Productivity is considered as an activity of leisure time. It is therefore necessary to create among entrepreneurs

productivity consciousness through proper training and publicity.  

Governments in both highly industrialised and newly developing countries have also taken major initiatives in the past two decades to stimulate the productivity of small manufacturing. Consequently, the mix of private and public services now found in different countries shows greater variety.

Generally speaking there are two aspect of productivity:

1. The technical aspect covering techniques of production, better management, better incentives, better handling of resources and avoiding wastes etc.

2. The psychological and human aspects involving better motivation, better attitudes, and better industrial relations

While these two aspects are common to both large and small-scale industries there are some important differences in the approaches to these units. The large units, can afford to employ or otherwise obtain the services of experts in the adoption of various tools and techniques of productivity in technical and behavioural aspects. The small-scale units, on the other hand, cannot afford to employ such experts and the entrepreneur himself has to imbibe the productivity attitude and acquire and practice productivity skills.


5.2.1.5 **Price Control**

Prices play a pivotal role in the regulation of the entire spectrum of economic activities, particularly in small-scale industries. A pricing policy must act as a motivating force for the accelerated growth of small-scale industries, for production, distribution and consumption.

In all business activities, whether in the public or private sector, large, medium or small-scale sector, the selling process influence the management to fix the price to sell the product.

In a sector where a large number of enterprises were organised as either sole proprietorship or partnership the quality of management, depends essentially on the abilities of individual entrepreneurs, displaying wide varieties. By and large each of these was found to have developed his own system, however, rough and ready, to keep himself informed of the various operations in his enterprise. Only a few adopted a more systematised approach by instituting flow charts, inventory controls or incentives bonds scheme. Pricing was found to be generally based either on prices of comparable imported items or on what the traffic could bear.\(^9\)

Price control does not exist in the case of small units. Any increase in the quantum of profits can be attained only by increasing the volume of output. If the firm is experiencing economies of scale there can be effective favourably. The effects of size and profit rate on wages are emperical questions.

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Even in small-scale firms wages are not determined by productivity considerations alone. There is sufficient evidence to claim that the external factors are already at work. Hence, unless this fact is realized and suitably wages and income policies defined by the management, the severe climate of industrial relations will only be a myth.

5.2.1.6 **Inventory Control**

The effect of excess inventory, whether in fixed or current assets, is the same. In both cases, the funds are locked up. If the funds are borrowed, avoidable interest will have to be paid on them. All the assets need to be maintained, and therefore, the maintenance cost goes up, so does the manpower requirement. These additional items of expenditure do not contribute to production and the generation of profits, but lead to losses. It is in this sense that idle assets are a drain on profitability.

Appropriate inventory management and capital planning, with a view to ensure full utilisation of capital, are pre-requisites for efficient performance of the small-scale units.

Inventory control is effected by the maintenance of records of stocks. Current assets keep moving, and their movement should be very carefully controlled, stocks should be always maintained at an optimum level, which is pre-determined for each item, depending on its availability, price and consumption.

According to the study of selected small-scale industries, the general feeling was that the needs of the small enterprises and their problems were different and change over time. Although general guidance could be provided to the entrepreneurs on various aspects of efficient management, it was felt that each entrepreneurs should adopt it to suit the level of operation of his enterprise and its growth.\(^{11}\)

5.2.2 Management Services to Small Industries in India

Small-scale industries in India suffer from various handicaps compared to large-scale industries, one of the most important among these is the non-availability of technical and managerial personnel of the required calibre. Large industries can employ qualified staff who are specialised in different areas of production and management. Further, they can afford to retain from time to time their own supervisory personnel and workers. As against this, the small industrialists cannot afford to employ workers and supervisors having a sound educational background and the requisite experience in production and in trade. Besides, they do not have the equipment and resources to train their own staff.

To meet this lacuna, the training of small industrialists and their workers has been taken up as an important part of the Industrial Extension Service rendered by the Development Commissioner, Small-Scale Industries Organization. The courses provided are designed to familiarise small industrialists and their workers with the latest tools and techniques in their respective fields. The objective of

\(^{11}\) NCAER, Op. Cit, p:41
training the personnel for and from small-scale industries is to equip
them with improved management and technical know-how and to apprise
them of the different kinds of assistance available from various
government organisations. The training programme of such personnel is
suitably geared to the needs of individuals with different backgrounds
and performing different functions.

5.2.2.1. Small Industries Development Organisation

The basic objectives of imparting training in management subjects
is to improve the productivity and profitability of the existing
entrepreneurs and to develop the new enterprises. The small-scale
industries have to be helped not only to consolidate their existing
growth but also for meeting the challenge in terms of products design,
quality and reliability in the competitive market.

5.2.2.1.1 Training in Industrial Management

These courses are designed for small-scale entrepreneurs and
their supervisory personnel engaged in managerial duties. The
following types of managerial courses are conducted by Small
Industries Development organisation (SIDO);

1. Industrial Management Courses:

These courses are introductory to the management courses and give
appreciation of various disciplines of management such as production
management, financial management, market management, inventory control
etc. The duration of a minimum 30 lecture hours.
2. Techno-Managerial Courses

These courses are meant for those small-scale industries which have already attained a certain level of sophistication and need training in specialised management subjects such as quality and reliability, design analysis, value engineering, cost reduction, packaging, etc. Duration is 4 to 6 weeks.

3. Special Courses in Management Studies

These courses provide intensive coverage of the basic fields of management such as financial management, production management, quality control, market study etc. The duration of these courses depends upon the needs of specific areas but is of a minimum of 30 lecture hours.

4. Ad-hoc Courses in Management Subjects

These are special short courses on specific tools and techniques of management like inspection, cost control, production development, production planning and control, market research etc. Duration is minimum for 10 hours.

During the year 1985-86, 93 courses in the above subjects were conducted by the Small Industries Service Institutes in which 2905 persons have been trained.

5.2.2.1.2 Technical Training Courses

In order to improve the skills of workers engaged in the small-scale industries and to equip them with better and improved technologies of production, Small Industries Service Institutes in the workshop and extension centres attached to them organised regular and ad-hoc courses in various technical trades and manufacturing process. The following types of technical training courses are conducted by Small Industries Development Organisation (SIDO):

1. **Shop Practice Courses**

These courses are for senior artisans and are meant for broadening their field of technical competence so that they can shoulder supervisory responsibilities covering all shop operations. These courses are in Machine Shop Practice, Tool Room Practice, Foundary Practice, Black Smithy and Forging Shop Practice etc. Duration of these courses are 6 months and they are full-time.

2. **Trade Oriented Courses**

These courses are intended primarily to equip skilled and semi-skilled with advanced knowledge of a particular trade viz. Tool Maker, Fitter, Machinist, Pattern Maker, Carpentry. Duration is 6 months and full-time.

3. **Process Oriented Courses**

These courses are intended for persons who are already familiar
with the production process in some form or the other or are qualified tradesmen. These are conducted in areas such as Heat Treatment, Electrical and Gas Welding etc. Duration of these courses are 3–6 months, full-time.

4. **Product Oriented Courses**

These courses are also intended for persons having basic knowledge of the manufacture of products in some form or the other and are conducted in areas such as Foot Wear and Allied Products. Paints and varnishes, etc. Duration is 3–6 months and full-time.

5. **Blue Print Reading Courses**

These are short duration Courses and are organised in this subject from time to time according to the requirements of different areas. These are part time evening courses.

6. **Ad-Hoc Courses**

Ad-hoc courses for short-duration of one to three months are conducted locally, particularly in different processes and products to meet the specific requirements of the small-scale units.

During the year 1985–86, 333 training Courses were organised in 40 different types of technical trades in which 2837 persons have been trained. 13

13. Ibid, p.84
5.2.2.1.3 Training of Officers

SIDO officers are regularly being deputed for training both within the country and abroad to keep them abreast of the latest developments in management, economic and technological field.

With the help of international organisations like UNIDO, APO, World Bank etc., SIDO Officers are trained in highly sophisticated fields in other advanced countries.

5.2.2.1.4 Management Consultancy Services

The Offices of Small Industries Service Institutes continued to provide management consultancy services to small-scale industrialists as a part of the over all industrial extension services of SIDO. This service assumes two forms viz., the problem-oriented consultancy service for solving specific problems faced by small industrialists and in-plant studies for intensive and analytical studies covering all aspects of a unit like finance, production, marketing, etc.

5.2.2.1.5 Consultancy for Technical Services

The need for providing specialised services to small-scale sector is increasing with the rapid development of these industries in the country. Apart from new products and items being introduced, new raw materials have also come into existence throwing open a vast field of operation and exploitation. In order to help small-scale industries in these areas Small Industries Development Organisation (SIDO) has also offered technical consultancy through panels of private
consultants or consultancy organisations, agencies on subsidised basis.

5.2.2.1.6 **Entrepreneurial Development**

Small Industries Development Organisation (SIDO) has been conducting a regularly structured entrepreneurial Development Programmes Since 1970 through various Small Industries Service Institutes and its branches located throughout the country. The programme which were initially started for graduate engineers, have been extended over years to cover various target groups.

For the first time, during 1985-86, SIDO also introduced special Entrepreneurial Development Programmes for beneficiaries selected under the self-employment scheme of the government of India.

5.2.2.2 **National Institute of Small Industries Extension Training – Hyderabad**

The Government of India set up an institute known as the Small Industry Extension Training Institute (SIETI) in 1960, under the Ministry of Industry for promotion and development of small industries. In order to provide administrative and financial autonomy, it was registered as a society in July, 1962. The Institute has been raised to the level of a National Institute, with effect from September, 1984.

5.2.2.2.1 **Functions and Activities**

The Institute has six major departments namely; consultancy,
Documentation, Industrial Development, Industrial Management, Applied Behavioural Sciences and Communications. Each of these departments is involved in all the three major functions of training, research and consultancy. Over the years, the Institute has diversified its areas of operation to cover training needs of all developmental agencies in the country and their counterparts in developing countries. It has also been recognised as a "Centre of Excellence" by the UNIDO and has been provided financial and other assistance for augmenting training facilities for both national as well as international participants.

The major activities of NISIET continue to be organisation of the training and workshops, projects and consultancy assignments, industrial potential surveys, research and information dissemination etc.

5.2.2.2.2 Highlights during 1985-86

During the period (April 85 - March 86), the Institute continued to impart training to persons concerned with development of small-scale industries. In all, the Institute has conducted 66 courses and trained 1158 persons. 14

5.2.2.2.3 National Small Industries Corporation

To provide the technology back-up to small-scale industries, the corporation is having four Prototype Development-cum-Training Centres. The highlights of the activities of the above centres are as follows:

14. Ibid, p.95
5.2.2.3.1 Human Resource Development

During the year 1985-86, PDTCS have trained 999 persons in various trades as against 899 persons in the previous year. By the year ending 1986, PDTCS have provided 15,155 trained manpower to the industry. 15

5.2.2.3.2 Prototype Development

The PDTCS have so far developed 142 prototypes of machines and equipment. During the year 1985-86, the technology packages have been developed for transfer of technology know-how from various PDTCS to various small-scale units.

5.2.2.3.3 Product Upgradation

Some of the prototypes which were developed a decade back have been taken up for upgradation in regard of quality and control mechanism.

5.2.2.3.4 Technology Upgradation

The need of upgradating technology for leather and footwear industry, has been assessed by a team, through a careful study. As a follow-up action, collaboration agreement have been made and experts provided with the assistance in the field of leather training, manufacturing of leather goods and footwear machinery.

5.2.2.3.5 Sub-Centres of PDTCS

With a view to extend the services of PDTCS to the rural and backward areas, the corporation has decided to set up a number of sub-centres of PDTCS at various places, the aim of the sub-centres would be:

1) to develop and upgrade the skill of local workers in various trades
2) to develop new tools and prototypes,
3) to provide common facility services to the local entrepreneurs, and
4) to provide consultancy services to various entrepreneurs and small entreprises to achieve technology upgradation.

5.3 Role of Manager in Small - Scale Industries

In the modern sector of the economy, especially in industry, the role of management is crucial to success and growth. It has gradually come to be recognised that educated and trained managers are the critical resources for economic development. If any single factor is the key for unlocking the force of economic growth, the factor is management. Much of deficiencies during the last few years in respect of raw materials, foreign exchange and other scarce resources can be traced back to defective management.

The manager of the small enterprises may be the most important asset of the firm. The demands upon him can be formulated very
comprehensively:
- Leader capacity
- Sales capacity
- Economic sense
- Public relations sense
- etc.

The manager of the small enterprise must try to bring all these qualities together within himself. These qualities have been a determining factor of the enterprises coming into being, and will affect the future.

The manager, especially the managing owner, is an individual resource of the enterprise. One has to be economical with resources to get maximum benefit out of them. This of course, has reference to the manager also. When his load of work is too heavy, he must be relieved. This can be done by

- better planning of the work
- distribution of tasks to his colleagues
- by the use of short-term assistance

He also might be able to broaden his resources and increase his capacity by developing his talents through practical and theoretical training.

Here, it is worthwhile to see, first, what is expected to be the role and function of a manager in an organisation irrespective of its size and then come to the small-scale industries.
An old classification, which is still widely used is that of Fayol; "Planning, Organising, Commanding, Co-ordinating and Controlling."\textsuperscript{16}

Therefore, the role of a manager in the small scale industries cannot be an exception. As it has been mentioned earlier, in small-scale industries, being limited in number, manager may have to perform, at all levels, executive, administrative, production, etc. as follows;

5.3.1 \textbf{Organisation & Planning}

The better manager will recognise that the more skilled and able workman may be elevated to the position of a foreman. Slowly, the manager brings together a group of assistants who help him making policy decisions. A wise manager will soon give them some decision making authority. When these assistants take on the full responsibility of a department the firm has entered a stage of maturity.

It has to be made clear that one of the most important responsibilities of management is to train their deputies and preferably those who are second and third in command. This can be done by delegating authority to the respective people at the various executive levels and carefully supervising their work at initial levels. In this way the executives will become more experienced so that ultimately they will lessen the strains on top management and give them more time to consider policy.

Another organisational problem is the inability to appreciate the need for planning ability and other skills. Virtually, no small industry manager gives sufficient attention to planning. Hourly tasks absorb so much energy that there is little time to forecast future problems or even to organise for right solution of current problems.

Historically, the ownership and management of small industries have tended to follow the growth pattern as follows. In the first stage, the owner both manages the company and performs all the works by himself. As the organisation grows into the second stage, the owner hires one or more employees to help perform the manual and or mental activities. Later, as the organisation begins to get larger, it enters the third stage, in which the owner hires a manager to run the business. Thus, the business takes on the form, characteristics, and many of the problems of a big business. The process of growth can be described as:

"A company's success and growth is a chain reaction. First, there is the growth which leads to new responsibilities which, in turn, leads to a search for executive talent to undertake the new responsibilities. If the search is successful, the effective management leads to better business and more profits. Again the decision must be made to expand again. Thus, the cycle is repeated.

However, the chain reaction can be brought at any point in the cycle."

Table 5.1 Stages in the Development of a Small-scale Industry.

First Stage - One person operation - where owner does all the activities

Owner - Manager - Worker

Second Stage - Separation of management and management functions; hired subordinates to do some of the manual and or mental activities while owner manages

Owner - Manager

Worker (s)

Third Stage - Separation of ownership and management functions; Owner begins to relinquish the responsibilities for the day to day running of the business activities to a professional manager

Owner

Manager (s)

Worker (s)

In this connection, it should be emphasised that the length of service of professional managers as opposed to owner managers in small organisation tends to be relatively short. They move from one company to another as they progress. Often, owners must give managers an interest in the company to hold them on.

5.3.2. Long Range Planning

A successful small-scale industry must be judged not only by its past and present but also by its ability to usher into the future. Planning for the future must not be the sole responsibility of the top man. He must seek the views of his executives and discuss his thoughts with them. However, he must win the support of his executives for his decision. The days of planning a year ahead will soon pass and it becomes necessary to think in terms of five years. The first two years should be planned in detail but the last three years may be planned only in outline.

The general manager must also face the fact that from the moment he takes office, the company's future is his responsibility. He is not just another senior executive.

One of his first decisions will be to decide on the company's product market policy. This must be clearly understood by all the members of the staff. He must be decisive on the products to be made, the market to be served and the amount of emphasis to be placed on things like quality standards, the design details or any combination of those.
Next, the company's policy on industrial relations must be examined. This is a field in which consistency is vital. Industrial relations can never be good if management approaches the subject in a superficial manner. This is particularly true in a small company.

Responsibilities, even in a key small-scale industry, should be defined. A review of the past reveals the difficulty in executive encounters in a small company in defining and assigning roles to people. Frederick W. Taylor, the father of Scientific Management was vitally concerned with the proper assignment of roles. The fundamental purpose of a structure and organisation is to get things done, and to achieve this, it is vital that everyone can interpret company policy on at least all major issues.

One of the advantages enjoyed by a small firm is that it usually employs more generalists than specialists. It is, therefore, somewhat easier to develop and sustain enthusiasm for the aims of the Company. There is however, one serious drawback in the development of small firms, and that is the risk of no obvious promotions which prevents top classmen from joining the firm. If they do join, lack of promotion prospects encourages them to leave as soon as other opportunities become available. Manager must plan his expansion and think several years ahead with this problem.

The problems of expansion include developing new products and markets, finding experienced staff and labour as well as land and capital. Opportunities have also to be studied and the agreement of

management sought for the planned expansion which appears most likely to succeed. Once this is agreed upon, it should be explained to all the staff so that everyone knows what the objectives are. 19 The implications of the planned expansion should also be studied so that everyone concerned knows his promotion chances and plans should be made to engage and train new staff to meet future needs.

5.3.3 Control Systems

Control systems must be established before the transformation from personal to functional management can take place. Installing controls without, constraining the company's effort is beyond the capabilities of most managers. However, a manager can obtain assistance from agencies to solve this problem. Experience gained in the operation of controls should not be kept a secret. Managers should be more willing to share information on control techniques than on technologies or marketing methods.

The manager may first see the need for a simple book keeping system that will give him periodical profit and loss statements. Book Keeping is simple when only one product is produced, but when several are made and sold, systems have to be expanded. 20

The company must know when products are making a profit or a loss, even though the general profit and loss statement may show on


overall profit. That is how one finds the individual product's performance regardless of total company performance. Cost analysis must be carried out for each product before production begins. Finally the alert manager will wish to have the overheads clearly stated as these are often overlooked and yet are substantial items of cost.

5.3.4 Financial Control

The manager must also handle financial matters. Seldom the financial environment pay so favourably that the manager need not concern himself with fund raising.

In most developing countries, very little is known about a typical manager's source of funds. In fact, most managers are reluctant to reveal this secret. Certainly banks supply some money but they are not as vital as the commercial institutions in an industrially developed country. Relatives and friends giving loans possibly provide the largest single source of capital. Once established a successful enterprise can find some of its future finance out of its profits.

Effective financial management is based on three factors; analysis of past performance; planning for future activities and control of current activity. Control is achieved by implementing decisions in accordance with agreed plans. Accordingly, financial planning is of crucial importance in Small-Scale Units.

5.3.4.1 Cash Flow

In small company two of the problems which attract the attention are, poor cash collection and money absorbed by the unnecessary increase of stocks. Managers should try to place long term orders with regular but flexible offtake. Next comes the evaluation of the capital cost of large stocks of unfinished products or work in progress. It may sometimes be necessary to keep large sums of money tied up in finished stocks but this should be avoided wherever possible.

Timely and rewarding short-term outlets will have to be found for surpluses, and appropriate outside financing arrangements will have to be made for meeting deficits, to ensure that operations continue unhindered, and planned profits are realised.

It is evident that if the advanced signals thrown up by cash planning are constructively acted upon, most of the problems of cash surpluses and deficits would be resolved by suitable and marginal readjustment in internal operations, without affecting the short-run profit goals.

5.3.5 Marketing

The environment exerts an important influence on the market in general. However, a manager can still influence the market for his own products. First he can study the market, estimate current and future demand and estimate the total production that will be available from competing enterprises. Customers' unfulfilled needs are met by new
products. The availability of desired goods may stimulate production and income. There is a possibility of increasing markets through advertising, demonstrations and other sales promotion techniques. Individual enterprises or associations can develop markets by such means, but this can be expensive.

Market research and sales promotion are foreign to the typical small industries manager. They are tied to middlemen who distribute their entire production and provide capital. The manager may lose some freedom of action and the incentives to expand. The middleman has taken over a portion of the entrepreneurial function and expanding enterprises may want to breakaway from the middleman or at least have a number of outlets of their own. Knowledge of marketing will assist this transition. Consultants or management measures will provide added assistance if the manager is aware of his needs and problems.

Advertising and sales promotion activities are important factors to be considered. Too many owners of small industries advertise merely to see their names in print, which is an expensive 'ego trip.' It should be used to inform customers of the availability of products or services and to convince customers that the products are superior than that of other competitors.

5.3.6 Production

Decisions made by the manager in production field establishes the cost, quantity and then marketing determines the price of product.

The modernised and expanded enterprise may require raw materials of a different type or quantity. The manager may have to check raw material quality carefully and seek out reliable sources of supply. If imports become necessary then advance ordering will have to be guaranteed with a production plan. The production department gives the manager an unlimited scope for innovation.

While, not necessarily, knowledge of capital and labour intensity theories, the manager of small units does try to invest his limited capital so as to obtain the highest return. Significant savings would result where the manager has knowledge of applicable technologies and equipment. Managers also require information on production engineering, that is, the relation of material flow to the availability of men and machinery. Self-education helped by Consultants can attain the required principles.

Mechanisation of a factory brings other problems for the first time. The manager may become aware of maintenance and the need for spare parts. Workers require new skills that often must be imported by the manager. Product quality may suffer if production moves from the work of craftsman to mechanised production. The successful manager is, therefore, one who knows the important relationship between quality and sales.

A private company or a small enterprise seldom enjoys monopoly competitors initiate its products. The enterprising manager has to modify, improve and divert production to maintain and widen his product. Very often the enterprise in search of a new market can over-diversify and find itself turning out a multitude of products at
no profit.

The quality of national products in competition with imports is often judged by their containers. As a result some managers introduce distinctive packaging. It should be realised that attractive, economically produced packaging has to be developed for different products to boost sales.

5.3.7 Developing Human Resources

Lawrence Appley, former president of the American Management Association, said "Management is the development of people and not the direction of things......Management is personnel administration." This statement indicates that the primary duty of all managers is the proper selection, placement, development, and utilisation of the talents of their personnel. How well or how poorly, they do this is a major factor in the success or failure of the business.

Of all the resources of a company, only people have the ability to vary their own productivity. While a machine can perform only the tasks it was designed and within the limits of its capacity, employees have many productive capabilities which can be motivated, can be innovative, and can adapt to changing circumstances.

Every small enterprise manager is a "personnel manager" in the sense that the work is done through people, with people and for people. Consequently, manager should be personally capable of

handling employee relations until the enterprise becomes large enough to afford a personnel manager.

In the developing countries of the world human resources are perhaps the least developed of all economic resources. There are millions of under-employed and under-trained people whose talents are idle or undiscovered. Managerial, professional and labour skills can be vastly improved. All human resources could be more effective through institutional changes. A country with relatively poor natural resources can have a high rising standard of living if it has good managers. However a country with rich industrial resources may be condemned to a low standard of living if its resources are dissipated through poor management.

The entrepreneur managers form a very varied group in terms of economic and social background. Some were originally poor rural artisans or factory workmen, others have come from well-to-do merchant and land owning families, some have had no previous experience whatever with industrial enterprise. Other graduates of various engineering colleges and are highly qualified technicians.

It may be true that some of the most essential qualities of a good manager (common sense, good judgement, and ability to handle people) can be acquired only to a limited extent, if at all, through formal training. It is certainly true that such training is no substitute for flair and experience. Therefore, a rich experience for a successful manager entrepreneur is very vital. However, there is a simple evidence that training helps a manager the least to adopt a more systematic approach to his problem.
5.3.8 Personnel Relations and Productivity

The small enterprises use their families as a labour force. If outsiders have to be brought in, they are treated as part of the family. But, a rapidly expanding enterprise, however, usually reaches a point where workers who are not known to the manager must be hired. The relationship thus becomes impersonal. The workers may then organise and join local or national unions. Bitter relations appear to be common during this transition, since the workers have lost the personal tie with their employer. It is important therefore the management to inculcate a sense of belonging to the work force.

Unemployment may make for cheap labour but also adds to management problems. New workers may be taken on reluctantly because of the difficulty of finding workers in the event of a slack period. Any attempt at productivity increase will be met with suspicion until evidence is given that the labour force will not be reduced. The manager may be blocked in his desire to mechanise if labour saving is the result.

Labour has yet to learn that increases in productivity can result in higher wages. Wage incentives have been used to achieve cooperation and a flexible approach to management in small factories permits experimentation. Peace rate payments may over a long period offer no inducement to productivity increases. Profit sharing plans are often quite successful. Once mutual confidence has been established the techniques of productivity increases are not difficult to master.
It has been noticed that in some cases\textsuperscript{24}, even where there is sufficient availability of technical knowledge, management techniques available to the small industries are not being used fully. So that the need of the hour is to use these techniques and increase productivity.

The best way to overcome apathy and ignorance is to concentrate on the direct personal approach for spreading information regarding productivity techniques.

5.3.9 \textbf{Training}

The ultimate efficiency of the enterprise will be determined by the interaction of two related factors:

1- The caliber of the people hired, including their inherent abilities, and their development through training, education, experience and motivation.

2- The effectively of their personal development by the manager after they are hired.

Educating workers in new technical skills has been found less difficult than getting them interested in increased productivity.

Not only must new employees be trained, but also the present ones should be trained and upgraded in order to adjust to rapidly changing requirements.

\textsuperscript{24} Bhagwatgia, M.S., Loc. Cit, p.93
The employees also have a stake in development, for they acquire a greater sense of worth, dignity, and well-being as they become more valuable to society. They will receive a greater share of the material gains that result from their increased productivity. These two factors will give them a sense of satisfaction in the achievement of personal and company goals.

Training is an integral input of managerial development. The lack of adequate and skilled personnel is one of the bottlenecks in a developing economy. Staff training is essential for entrepreneurs and workers employed in small enterprises.

There are different methods of training non-managerial employees,

1. On the job training is a programme in which the employees receive training while they perform their regular jobs. Thus, they are both producers and learners.

2. Apprenticeship, the purpose of this training is to develop well-rounded individuals who are capable of performing a variety of jobs. It usually involves learning a group of skills that, when combined, qualify one to practice a trade.

3. Intership training is a combination of school and on-the-job training. It is usually used with employees who are prospects for marketing or clerical positions, or who are being prepared for management positions.

4. In outside training, the employees receive training at schools outside the company.25

25. Tate, Megginson, scott & trueblood, Op.Cit, p.183
5.3.10 Developing Appropriate Methods

A number of management methods yield good results in large industries, but these are too complex and too costly, in terms of overheads, for use in small undertakings. The purpose of adopting simplified management methods for use in small scale undertakings is not to overburden management with new tasks. Rather it is to help them to do the work that has to be done and to take decisions that have to be taken efficiently. That means they work in accordance with certain relatively simple principles using such relevant facts as it is economically worthwhile to assemble, instead of doing their work and taking their decisions in an unsystematic, haphazard fashion.

Given a reasonable product and the minimum necessary capital, the basis of success in the first stage of operation is enthusiasm and effort. When the business has matured and the responsibility of finance and organisation weigh heavily it becomes necessary to consider every argument and think out every policy.\(^\text{26}\)

Thus, the major requirement of the management of a company or any other organisation, is to make the right decisions. This, as every manager knows, largely depends on correct assessment of hard facts. Basing decision on illusion is liable to produce unsatisfactory results.

5.3.11 Problems Solving Through Management Training

The internal problem of an enterprise can be solved by the

entrepreneur manager if he requires the proper skill and knowledge, for example through training. Management training is of great importance to groups of managers facing common problems such as those considered earlier in this chapter. However, there should be no confusion about management training. It cannot solve technical or production problems but will show how planning, administrative and control difficulties may be overcome.

Henry Fayol\textsuperscript{27}, after studying early twentieth century French manufacturing industry, reported on the relative importance of these two types of internal problems. Those problems common to all manufacturing plants were grouped under managerial (organisation, planning, personnel relations), marketing, finance, control and security (safeguarding property). Those production problems peculiar to each enterprise were termed technical.

The time a typical manager would spend upon each group of problems was estimated for plants and varying sizes and reported as in Table 5.2.

Fayol concluded that even in the smallest of companies 60 percent of the manager as time was spent solving problems common to all companies in the size group. He suggested that formal training of managers even for small enterprises would assist their development. The relative importance of the problem facing managers varies from country to country. However, no country has been able to claim that the problems shared by all managers, do not justify training in

management.

Table 5-2: (Function of the Manager in %)

<table>
<thead>
<tr>
<th>Size of the Enterprise</th>
<th>Managerial</th>
<th>Technical</th>
<th>Marketing</th>
<th>Finance</th>
<th>Control</th>
<th>Security</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 15 Workers</td>
<td>15</td>
<td>40</td>
<td>20</td>
<td>10</td>
<td>10</td>
<td>5</td>
</tr>
<tr>
<td>Small (15 Workers)</td>
<td>25</td>
<td>30</td>
<td>15</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Medium (100 Workers)</td>
<td>30</td>
<td>25</td>
<td>15</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Large (1000 Workers)</td>
<td>40</td>
<td>15</td>
<td>15</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Very Large (over 1000)</td>
<td>50</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>State Enterprise</td>
<td>60</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>8</td>
</tr>
</tbody>
</table>


5.4 IRAN

5.4.1 Managerial Problems of Small-Scale Industries

As in almost every developing country, one of the crucial problems encountered in accelerating the growth of the small-scale industry in Iran, qualitatively as well as quantitively, is the lack of an energetic and skillful group of creative, innovating, achievement-motivated entrepreneur-managers. This lack has been observed in the production as well as in the financial management.
Although most of the manufacturers in Iran are well aware of specific technical problems, they do not seem to be interested in such specific production management measures as preventive maintenance of equipment, work flow improvement, work simplification, production scheduling and control. It is evident that considerable cost reductions may be initiated by these measures.

The potential investor only shows interest in the production process for a certain commodity and the machine required for manufacture. Any of the above mentioned cost reducing disciplines were apparently regarded as a ballast and therefore, neglected from the very beginning.

Financial management problems such as proper accounting, costing and cash flow budgeting are typically cloaked by the need for greater working capital. The credit needs often lead to consultation, which uncover problems of inventory control, balance between fixed and working capital expansion, and others. Owing to a poor knowledge of the financial management problems, many entrepreneur are running into trouble at the beginning of the factory operations because of insufficient available working capital. In their preparation of pre-investment calculations this working capital is often neglected or only regarded as a balancing financial post on the budget. Many of these small factors are thus starting almost on the brink of bankruptcy.

Besides these purely managerial problems, all the small manufacturers lack the management aid of industrial research.28

Although research performed by qualified specialists falls beyond financial scope of small industry, there are still many types of applied industrial research which lend themselves to collective performance for the benefit of several firms simultaneously.

The valuable, indeed indispensable role of research in modern industry is well known. In a developing country like Iran, the pay-off from properly directed industrial research can consist of selecting from the world reservoir of already existing scientific and technical knowledge those ideas must immediately applicable in the country and then adopting them somewhat to make them truly marketable under local conditions.

The need for applied industrial research is felt in integrating the economic, engineering and some of the already mentioned managerial aspects of specific small scale industrial opportunities and problems. A proper integration assumes the knowledge of the existing and applicable possibilities in each of the above mentioned aspects and creates, therefore, a need for:-

a) Economic research for small industries to assess market aspects, costs and location factors and that for the small manufacturer himself who needs information about these factors as well as for the government policy maker who needs data for programme planning and review.

This research must focus on competitive conditions and anticipated market growth in important small plant products, cost-factors and cost-reducing methods, minimum size of the
economic plant, break even projections and opportunities in particular regions and locations. Suitable balance between economic research for groups of firms and for individual firms must be sought from period to period.

b) Engineering research to screen known technology for adaptation of local resources, labour-capital costs, sales factors, etc. In this context it seems useful to call the attention to the development of specialised production techniques and equipment adapted to small industries with small series production. Normally in different small production units either a production over capacity due to the installation of costly equipment of too high capacity or an under capacity because of the installed obsolete equipment resulting in poor production quality and big production waste and fall out. A study into the possibilities of developing specialised production equipment for small scale industries seems particularly opportune where the big plants such as Tabriz Plant started the production of machine tools for Iran. This complex may accept a leading role in producing this type of equipment. 29

c) It is obvious that a close coordination between the economic and the engineering research department may contribute substantially to the development of new ideas in the managerial sphere. New management techniques adopted for the needs of the local small industries may be evaluated.

Strongly felt that key importance for applied industrial research, is the creation of a technical information service. Problems raised by small and large industrialists, extension staff, and research specialists are the origin of most technical inquiries. Ingenuity combined with systematic knowledge of technical literature and information retrieval methods are needed to obtain, screen and adapt information that will be relevant to the local situation. The specialised abilities and resources needed to activate an effective technical information service may require that it be centred in an industrial institute service large as well as small industries.

The above described managerial problems are more or less of an educative nature and involve skill-intensive measures for solution. It is very difficult to make strict calculation of the benefits against the costs for possible solutions of these managerial problems because very often the costs are not expected to cover full costs in view of the long-term returns to society from educational measures.

5.4.2 Management Training

This is a programme which places emphasis on the preparation of the small industrialists for business management and ownership responsibilities to be assumed where business opportunities exist or will exist in the near future.

Training must be undertaken after the identification of industries. This training must cover all phases of management such as pricing techniques, accountancy, inventory control, quality control etc.
5.4.3 **Management Assistance**

Management assistance programme should be keyed to the establishment, growth and success of small industries. The need of assistance is demonstrated by failures particularly taking place in the small business community.

If the management assistance is of a most obvious interest in a general policy concerning assistance to the small industries, it is of particular importance for companies wishing to enter successfully into the field. The industrialists entering in this field should be assisted fully for it 1. - Technology and 2. - From the point of management.

5.5 **Conclusion**

The small enterprises needs organised and systematic management even more than the big business. It does not need, to be sure, large central staffs. It does not need elaborate procedures and techniques in many areas. In fact, it can afford neither large staffs nor elaborate procedures. But it does need management of big order.

The small business needs its own control and information system. Its resources are limited, in both men and money. It has to make sure that its resources are deployed where they bring in results. Its ability to get additional resources is equally limited. It, therefore, needs to make sure that it will not outrun its financial base. It needs to know well in advance when and where its financial needs will increase.
The problems of productivity has to be tackled in an integrated manner in small industries. If the rise in productivity on the part of workers helps to enhance the return on investment, it will be possible for small units to retain skilled workers with a promise of higher emoluments. Quick returns on investments helps survival as well as expansion.

Many developing countries need assistance in providing industrial extension and training services to stimulate local entrepreneurship, to impart knowledge and information on industrial possibilities, processes and methods of production, and to upgrade various types of skills. The same may be the case for Iran. Besides, supplying technical and managerial information, advices, training courses in Industrial Management, the Government by organising seminars, semi-training courses in technical problems specially adopted to the technical problems level of the small factory entrepreneurs and by fixing rigid quality requirements for the supplied products the small producer may feel he gets a fair chance to improve himself.
CHAPTER VI: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

6.1 INDIA

6.1.1 Small-scale Industries

A small-scale industry denotes an industrial unit with a capital investment of not more than Rs. 35 lakhs, irrespective of the number of persons employed. It has no minimum limit of capital investment that is investment in plant and machinery only. This amount denotes the original value paid by the owner of the unit. It is not the market value of the plant and machinery installed.

Within the existing definition of the small-scale industry there is a "tiny industry" comprising of units with investment in fixed assets for plant and machinery upto Rs. 2 lakhs and situated in towns and villages having a population of less than 50,000. These units are entitled to a special attention in matters of assistance.

A unit with an investment upto Rs. 45 lakhs in plant and machinery is also a small-scale industrial unit eligibility to receive all the permissible assistance, in case it produces parts, components, sub-assemblies and tooling, or renders services, and supplying or rendering or purposing to render or supply 50 percent of their production or the total services, as the case may be against known to anticipated demand of one or more large-sale units, but is not a subsidiary to or controlled by any large unit in regard to the negotiation of contract for supply of its goods to any large unit.
Small Services Establishments are establishments or enterprises in personal or household services in rural areas and towns having a population of 5 lakhs or less and having investment in plant and machinery not exceeding Rs. 2 lakhs.

6.1.2 Ancillary Industries

It will be socially preferable if the expansion of industry is attained by the co-ordinated growth of small-scale and large-scale industry. This philosophy is at the heart of the concept of ancillary relationship, which is essentially the forward linkage of small firms (Ancillary units) typically with a large firm (master unit). If ancillary relationship were sustained during the growth of large industry, this would ensure simultaneous growth and modernisation of small industry.

6.1.3 Role in the National Economy

Small-scale industries sector plays an important role in the economy by creating more and more employment and contributing greatly towards growth of industries in the country. This sector can serve as an effective weapon in the hands of planners in their industrialisation programmes and bring about a regional balance through development of backward regions.

Development of local skills, productive utilisation of local raw materials and wastes, and encouragement to entrepreneurs in backward areas are new directions of small-scale industry development.
Basically, small industries are important for national development programmes because they can make a definite contribution to the realisation of the central purpose of such a problem, i.e. to bring about an efficient utilisation of national, human and capital resources of the country for the achievement of predetermined ends.

6.1.4 **Contribution to National Income**

The small-scale sector is the second major contributor to the industrial economy of the country. It accounts for 95 percent of the entire country's ownership, contributes nearly 49 percent of the total industrial production, and export from this sector accounts for one third of the total export from the country.

In addition to providing direct and indirect employment to millions, this sector is engaged in providing technical and commercial training to a large segment of rural and urban population. The role of small-scale industry sector is more important to a country which faces a large-scale unemployment and under employment and there is dearth of sophisticated machine and modern technology.

6.1.5 **Small-scale Industries Board**

During 1953, the Government of India invited, an international team of experts sponsored by Ford Foundation to study the problems of small-scale industries for the purpose of recommending a programme of development in view of their importance in the economy. Among many steps taken by the Central Government in pursuance of these recommendations, one was to set up Small-scale Industries Board (in
November 1954) to advise it on the programme and work of different agencies looking after development of small-scale industries in the country.

The Board at present has 50 members, including representative of the Central and state governments, the Reserve Bank of India and the State Bank of India, non-officials, etc.

6.1.6 Districts Industries Centres

The District Industries Centres (DIC) programme was launched during May, 1978 to establish a district level set up for the promotion of small, tiny, village and cottage industries under a single roof; as far as practicable at pre-investment, investment, and post investment stages. The main thrust of this programme in rural areas and small towns of the country is on the development of such industrial units which would create larger employment opportunities in these areas.

6.1.7 Small Industries Service Institutes

The office of the Development Commissioner (small-scale industries) headed by Development commissioner (SSI) is affiliated to Ministry of Industry. It provides a comprehensive range of facilities and services including consultancy in techno-economic managerial aspects, training, common facility services, common processing and testing facilities, tooling facilities and marketing assistance etc., to small-scale units.
6.1.8 **Industrial Policy**

The development of small-scale industries has been emphasised in the Industrial Policy Resolutions of the Government. The policy resolution points out the strategy to be followed for promoting and protecting the small-scale industries in the country. Government has taken various measures to minimise the problems of small industry. Many institutions and organisations have been set up to promote their development. Small-scale industries are the basis of industrial progress.

6.1.9 **Five Year Plans**

Successive Five Year Plans have laid down an emphasis on the development and growth of the small-scale industries in India. Government has made substantial expenditure on the development of small-scale industries. During First Five Year Plan a sum of Rs 5.20 crores was incurred. In Second Plan the amount rose to Rs. 55.6 crores which is nearly 10 times the expenditures in the First Plan. In the Seventh Plan it is Rs. 1120.51 crores.

6.1.10 **Performance**

The performance of small-scale industry in India has been quite impressive. It is now one of the fastest growing sectors of the economy.

During 1985–86, production of small-scale industries was estimated to be around Rs. 61,100 crores at current prices, providing
employment to about 96 lakh persons at the end of 1985-86. Exports from the sector are estimated to be Rs. 2580 crores in 1984-85 as against Rs. 2219.23 crores in 1983-84. Exports from the sector accounts for about 22 percent of the total export from the country. The value of investment in 1984-85 is also considerable, amounting to Rs. 7360 crores or 66 percent higher than, what it was in 1978-79.

6.1.11 Growth

The last few years have witnessed a spectacular growth in the small-scale sector. This can be a significant feature of planned economic development in India.

During the period of Sixth Five Year Plan, the small-scale industries sector has registered a significant growth. The average annual growth rates during this period were: number of units (9.76 percent), production at constant prices (8.36 percent), employment (6.08 percent) and export at current prices (16.68 percent) respectively. This tempo of growth has continued during the first year of Seventh Plan (1985-90). Growth rate achieved during the year were: number of units (8.62 percent), production at constant prices (19.31 percent) and employment (6.67 percent) respectively.

6.1.12 Production Problems

Production difficulties are the problems of inputs in the manufacturing units. These problems are encountered by the units during the course of their production cycle or transforming raw materials into the finished products. Production problems constitute
major part of all problems faced by a manufacturing organisation. Of course, this percentage is different from industry to industry and from location to location. They are not only large in number but diverse in nature also. Some important production problems faced by small-scale industries during the course of their production cycle are as follows.

6.1.13 **Raw Materials**

The severest problem faced by small-scale industries relates to the acute shortage of the right type of raw materials at standard prices. The problem has affected the entire industrial sector, and the major impediment to growth in the small-scale sector is shortage of raw materials and infrastructural inputs.

Another problem has been the fluctuation of prices which has adversely affected, in particular, the artisan type units because they lack holding capacity. Because of the shortage of critical raw materials and power, there is gross under-utilisation of capacity in this sector, leading to widespread sickness in the sector.

Timely availability of raw materials in sufficient quantity is one of the basic necessities for the survival of small-scale industries. For this purpose the Small Industries Development Organisation has been maintaining a close liaison with the concerned Ministries and other organisations for supplying the scarce raw materials to small-scale industries. But still small industries are not meeting their requirements.
6.1.14 Credit Needs and Financial Problems

Ranking next in importance to raw materials is the inadequate credit facilities. Small units, as is well-known, are not exclusively dependent on government assistance. Most of these units own their origin to the spurt in the demand of their products either in the local market or the neighbouring and distant markets.

The small units depend more on their own funds and borrowed funds from non-government sector, because the institutional lenders like banks and government financial corporations are generally reluctant to advance money to these small units, since they have yet to establish themselves.

Financial assistance is normally provided to the small and village industries sector by the Reserve Bank of India, Industrial Development Bank of India and other institutions like the State Financial Corporations and Commercial Banks. While the needs of medium and long-term credit to the small-scale industries are mainly met by the state Financial Corporations, Commercial Banks meet the working capital requirements.

6.1.15 Experienced and Skilled Labour

There is general scarcity of technical and skilled workers. The shortage of skilled labour can be attributed to severe competition from large-scale units. They offer comparatively higher wages and provide better job securities.
Continuously rising labour cost is a problem for small industries. This problem is becoming very severe because the small industries are unable to increase their production in view of the other problems, e.g., scarcity of raw materials, non-availability of sophisticated machinery and so on.

Actually, small industrialists and industrial units cannot normally afford to engage the services of skilled technicians or business consultants. In view of the importance of the provision of such facilities, the Government of India has set up an Industrial Extension Services as a direct servicing agency for various small-scale industries to train their workers in the different fields to meet their requirements.

6.1.16 Technology and Technical Services

Technology forms the basis of all industries. One of the major handicaps of the small-scale sector has been the absence of the latest technology which alone can ensure quality and a high rate of productivity.

Although, there has been much improvement lately, but modernisation and up-gradation of technology needs much more attention. If the small-scale industry is to make effective contribution to the growth and diversification of the economy, modernisation and rigid quality control assumes special urgency.

Small-scale industries are being assisted by Small Industries Development Organisation (SIDO) by using expert advice on matters
relating to technology and modernisation through its network of Institute and Extension Centres all over the country.

6.1.17 Industrial Estates

In order to eliminate these difficulties and to encourage the entrepreneurs, The Industrial Estates Programme was started in India during 1955. Initially, the main emphasis of this programme was on the development of small-scale industries by providing suitable factory accommodation and other facilities necessary to their efficient working. The need was, thus, realised for chalking out the Industrial Estates Programme, which is an instrument for developing small-scale industries in relatively under-developed areas.

6.1.18 Sickness in Small-scale Industries

Small industry is passing through a critical phase. Despite of the phenomenal growth achieved during the past few decades, small industries today are caught in the web of sickness and demand stagnation.

The sickness among the small scale units is compounded by several other depressing factors. First is the the lack of interest on the part of financial and banking institutions. Secondly, small industries lack resources for modernisation essential in many cases for rehabilitating them. Thirdly, in view of the difficulty in achieving rationalisation of operation, small industries find it difficult to improve quality standard and productivity.
Small Industries Development Organisation (SIDO) is engaged in conducting studies to know the extent and nature of sickness in this sector, industry-wise and area-wise. But these studies are not enough and there should be enough support of government and government organisations to help small industries to overcome their sickness right in the beginning. The sickness should not be allowed to become severe and out of control.

6.1.19 Marketing Problems

Small-scale industries also face problems while marketing their products, chiefly, because of the absence of well developed sales organisations as compared to the larger competing units, absence of standardisation of products, inability to meet the requirements of government and other bulk purchasers and the urgent need to dispose of their products immediately at any available price, due to shortage of working capital and consequent lack of staying power.

6.1.20 Market Research

A careful market study and correct forecasting of demand are prerequisites for the success of a unit whether in the small or large-scale sector. It has been found out that over 40 percent of the samples of small-scale units started without any feasibility study and detailed project reports. Such reports as were prepared and submitted by the sponsorers to banks or financing institutions were offered more as a device to obtain finance rather than as a guide to further operations.
6.1.21 Quality Control

One of the reasons why the small-scale sector sometimes suffers from marketing disabilities is that they are often unable to obtain testing and quality certification. Designing of articles and their finish is the result of a thorough market research.

Management of these industries should, therefore, begin thinking with the demand side of economic equation, a production in accordance with a carefully measured demand will provide a much sounder and with existing products as to performance, style, quality, size and price can be invaluable in determining the competitive position of small industries.

6.1.22 Production Bottlenecks

Actually, marketing problems of small industrialists can not be studied in isolation without taking cognizance of the production bottlenecks. Though many small industrialists possessing necessary technological background and skill are frequently found to be production oriented. Still they are unable to produce goods acceptable in the market mostly because of non-availability of the requiring raw materials. In some cases, the higher prices of raw materials left the possibility of producing only inferior quality goods.

6.1.23 Distributors

Normally, the absence of sales organisation and poor publicity often forces small industrial units to sell their products to dealers
who market them under their own brand names. The difficulties faced by
the small industrialists in selling their products, reveal their
extreme dependence on distributors or merchant house.

The units supplying to the governments do not fare better.
Although, a general satisfaction has been expressed regarding the flow
of information on tenders; the complaint regarding favouritism shown
in the placement of orders is often made. Even in respect of payment
in government purchases the small industrialists are not very happy.
The payments reportedly, take a long time and procedures are often
cumbersome.

6.1.24 Competition

Small-scale units have to face a triangular fight in the internal
markets from large-scale units, middle-man, traders and intra-
industry. Specially, in respect of consumer product, the firms and
companies which can afford to earmark sizeable budgets for
advertisement and publicity make it difficult for a small entrepreneur
to introduce his products, however, good in quality. The expenditure
on publicity is not even financed by financial institutions, which is
a further constraints for a small unit, inhibiting it to enter into
consumer marketing field. A small proportion of small industrialists
did however, depend upon their own resources to build up distribution
channels and attempted to create an image through various media with
varying degrees of success.
6.1.25 Provision of Marketing Assistance

With a view to support the marketing efforts of small entrepreneurs, the Central Government gives its support mainly through two policy measures. First, 873 items have been reserved for production in the small-scale sector and as a result, the increased demand is supposed to be not only through the expansion of the small-scale sector thereby limiting competition in marketing from large-scale units. The list of reserved items is continuously reviewed and items added and deleted depending upon the market demand and capacity of the small-scale sector to produce these items.

Secondly, in the purchase programme of the Central Government, about 409 items are reserved for exclusive purchase by government departments from the small-scale sector.

Many of the items figuring in this list are also produced by the large-sector but the Central Government has decided to purchase these from the small units only.

6.1.26 Small Industries Development Organisation (SIDO)

The Small Industries Development Organisation is paying considerable attention to the promotion of marketing facilities for small-scale industries in India. SIDO provides marketing assistance to small-scale units through developing and promoting ancillarisation, providing marketing intelligence and information, establishing trade centres, encouraging small entrepreneurs to participate in Government Purchase Programmes of Central and State Governments, setting up a
sub-contracting exchanges, organising exhibitions, seminars and training programmes in marketing and publishing of information booklets, etc.

The Small Industries Service Institutes are actively engaged in identifying and promoting new items for ancillarisation besides rendering technical and managerial assistance to the existing ancillaries.

6.1.27 Export Marketing

The export marketing strategy involves several complicated functions like customer analysis, technical changes, competition analysis, overseas marketing surveys and market research, export pricing, procurement of export credit facilities, quality control and packaging, export documentation, marine and air insurance, fixing of distribution channels and appointment of agents abroad, sales promotion and publicity techniques. The complexities and magnitudes of all these problems requires a large organisational set-up, adequate financial resources and personnel with requisite expertise. In the present situation it is rather difficult, if not impossible, for small-scale industries with limited resources and capacities to perform these complex functions of export effectively.

6.1.28 Consultancy

Inspite of tremendous potential for export of small industries products, the average small industrialist is apprehensive for catering to international markets due to the lack of know-how with him in
export marketing. Institutional assistance in export consultancy to the small industries is, therefore, absolutely essential to fully tap the export potential of this sector.

6.1.29 **Role of State Trading Corporation**

Following are some of the services which State Trading Corporation has been rendering to the small-scale industry sector:

- Undertaking actual export marketing, that is to say, sending offers to foreign parties;
- Finalising negotiation;
- Forwarding samples;
- Contracting and post-contractual followup work;
- Promotional activities, such as:
  - Undertaking market research;
  - Market development tours;
  - Undertaking publicity;
  - Packaging assistance;
  - Advisory services on trade environment;
  - Technical advice and guidance;
  - Brand promotion, etc.

6.1.30 **Consortia**

Whatever promotional measures the government takes, the small-scale sector continue to be at a disadvantage in the area of marketing. With modest resources in money, materials and men, it lacks
the in-built strength of big organisations to survive the impact of the fast changing economic environment.

A family of product in this sector could join hands to produce a variety of items under a popular brand name and undertake nation wide marketing with reduced over-heads. Government could assist by setting up corporations devoted exclusively to marketing of these products.

6.1.31 Managerial Problems of Small-scale Industries in India

In small-scale units managers, being limited in number, may have to perform at all levels; executive, administrative, production, supervision, clerical and even provide some of the skilled and common labour. Managers in the small-scale units have therefore, to meet two major requirements:

1- To achieve sufficient knowledge of most, if not all, of the duties of management.
2- To perform effectively while finding time to think and plan effectively.

All the problems discussed above are, in one way or the other, management problems. Underlying all of them is a basic problem facing all managers, development and training.

6.1.32 Management Features

From the management point of view, one of the favourable characteristics of a small-scale industry is its flexibility. Bureacratic procedures and details in arriving at decisions are
difficult to avoid when many people have to be consulted. The small-scale industry has important advantages where quick decisions are needed.

Other common characteristics of small-scale industries, are the lack of clear definition of jobs and of clearly understood lines of authority and responsibility. This arises because the head of the small-scale units tries to keep everything in his own hands and is unwilling to delegate his responsibility.

6.1.33 Lack of Training

Most of the managers in small-scale industries have had no formal training for the varied and difficult work they have to do. If they have had any formal training at all, it has been usually limited to one or at the most a few specialised aspects of their work. In order to improve their competitive position, it is necessary to teach them management techniques and a scientific management.

6.1.34 Productivity

It is often felt that the main hurdle in the spreading of the productivity concept among small industrialists is the lack of management consciousness. The small industries practices these weaknesses as they are more involved in day-to-day problems of securing raw material or infrastructure facilities or in complying with the role and regulation of the state authorities. It is therefore, necessary to create productivity consciousness among entrepreneurs through proper training and publicity.
6.1.35 **Price Control**

In a sector where a large number of enterprises were organised as either proprietorship or partnership the quality of management depends essentially on the abilities of individual entrepreneurs. By and large each of them have developed his own system, however, rough and ready, to keep himself informed of the various operation in his enterprise. Only a few adopted a more systematised approach by instituting flow charts, inventory control or incentive bouns scheme. Pricing was found to be generally based either on prices of comparable imported items or what the traffic could bear.

Even in small-scale firms wages are not determined by productivity consideration alone.

6.2 **IRAN**

6.2.1 **Small-Scale Industries**

Undertakings having investment in plant and machinery not exceeding Rls. 7.5 million and not being engaged in goods of an artistic nature are denoted as small-scale industries in Iran.

6.2.2. **Industrial Estates Authority**

During August 1964, the government established a semi-autonomous organisation called the Industrial Estate Authority within the Plan Organisation to meet the need for a special organisation to give administrative and policy support to the programme of industrial estates.
6.2.3 *Organisation for Small-Scale Industries and Industrial Estates of Iran*

The implementation of the industrial estate scheme soon revealed the handicaps and short-comings inherent in the project as designed by that time. What was lacking was a programme for the development of a healthy middle sector of modern small-scale industries and an organisation for the promotion of such industries. Therefore, in 1966, government decided to set up a new organisation called the Organisation for Small-Scale Industries and Industrial Estates of Iran, replacing the Industrial Estate Authority with wider powers and responsibilities for small industry development including establishment of industrial estates.

6.2.4 *Present Situation*

In pre-Revolution time, Ministry of Industry had entrusted duties regarding small-scale industries to Organisation of Small-Scale Industries. The offices of Ministry in the different provinces were also doing the same job. Therefore, the job which was supposed to be tackled by Organisation of Small-Scale Industries, used to be done by other departments of the same Ministry in different provinces. The dual authority created more problems for small industries. In 1983, the organisation, joined the respective departments in the Ministry and the responsibilities of development of small-scale industries have reverted to the offices of the Ministry of Industry in the provinces. Ministry itself functions as central organisation for development of small-scale industries.
Even in the recent years some other organisations such as Construction Crusad have shown enough interest in planning and co-ordinating of small-scale industries in the country.

6.2.5 Development of Small-Scale Industries

As the small-scale industries in the country are still to be developed, this seems the opportune time to recommend the utmost attention combined with the proper measures for a development of these small-scale industries into units cooperative and complementary to the large plants. Most of large industries are government owned or with a big government share in the investment capital. This fact gives the government an additional opportunity to promote and to materialise through the management of large-units the establishment of complementary small industries.

6.2.6 Five Year Plans

It was during the Third Plan which commenced in 1962, the small-scale industries were recognised and later during Fourth Plan the Organisation of Small-Scale Industries and Industrial Estates of Iran has been established.

The country's Fifth Five Year Plan was formulated for a massive programme of small industry development comparing to the Fourth Plan. The financial provisions proposed for the Fifth Plan was Rls. 11.5 billion as against Rls. 550 million in the Fourth Plan.
6.2.7 Formulation of Policies

Regarding the formulation of policies for small-scale industries development, it can be stated that a broad strategy and policy frames conducive to the proper growth of small industries has now emerged in the country.

The importance assigned to modernisation of existing industries and promotion of new industries with potential for employment and import substitution have placed the small industry development programme on a very sound base.

6.2.8 Production Problems

Factory Site: The problem of optimum factory site and buildings for small-scale industry in Iran has already attracted attention. Most of the small factories are housed in cramped, dark premises which are not conducive to good work by human beings or by machines. Improvement in this situation can stimulate managers and workers to make other improvements and the effect on productivity and general initiative may be considerable.

Financial Problem: Although it may often be observed that financial problems of small manufacturers are hardly ever just financial, but still in some cases, the absence of credit facilities has been the most serious handicaps of the small industrialists in Iran. In fact, the lack of a good credit assistance scheme has been reducing the effectiveness of all other assistance programmes.
**Raw Materials:** Generally two basic conditions underly the handicaps of small manufacturers as compared to large-scale in purchasing raw materials and equipments.

First, and most important for Iran, is the business network of suppliers and sales agencies is much less developed than in industrialised countries where it usually provides comprehensive and effective services to industry.

Second, the economy faces a scarcity of raw materials and equipment due to a shortage of foreign exchange.

**Technical Know-how:** Almost majority of the existing small-scale industries in Iran were very poorly organised and equipped. Production design, production techniques, use of materials and similar technical aspects were dissatisfactory. But, in the recent years there was much of improvement in this regard. The technical know-how, however, depends on industrial research, particularly in the small-scale sector, which not only ensures stability in marketing and profits, but is essential for the very survival of a unit.

**Labour-Problem:** Handling labour, which is a major contributor to industrial production, is one of the most difficult tasks of industrialists, because of the human element involved in it. A labourer in small-scale industries does not have enough skill and experience. The skilled workers are not attracted by small industries. Uneducated labour does not know how to handle the imported or even local machine.
6.2.9 **Marketing Problems:**

Small-scale industries, suffer from lack of resources and specialised know-how, absence of motivation and lack of emotional involvement in the productivity movement. Competition with large and medium scale industries from one side and imported articles from the other side is a major deterrent to small entrepreneurs in the market.

Small-scale sector, lacks an institution to collect reliable and up-to-date market intelligence on industrial products and makes it available to them. Lack of quality control and standardisation is another problem to be faced by small-scale industries. Due to their weak financial position they are neither able to go for market research nor are they able to get benefit of experts for their product marketing.

6.2.10 **Government Purchase Programme**

If properly shouldered, the small-scale industries can supply a great amount of quality products to the government. The small but viable business enterprise may be desirous and capable of participation in government purchasing but unable to achieve it for reasons beyond its control. Thus, the need for an organisation set up to aid, counsel, assist and protect the interests of small-scale industry and fully ensure that small industries receive a fair proportion of government purchases, contracts and sub-contracts is felt. All assistance should be rendered to make this activity possible.
The government purchasing departments should review the purchase from the small industries in order to determine the ones which can be reserved to be purchased exclusively from the small-scale sector.

6.2.11 **Price Preference:**

There should be a governmental policy giving a certain price preference to quotations of small-scale industries over the acceptable quotations of the larger scale units in respect of tenders for which quotations are invited both from small and large-scale units.

6.2.12 **Certificate of Competency:**

If a government agency proposes to reject a bid of a small-scale industry because they question its ability to perform the contract on grounds of lack of capacity or other reasons, there should be an organisation (discussed earlier) to help small industry to investigate the case. After due investigation it can satisfy the governmental agency as to the reliability of the small units and offering a certificate of competency get the order placed with the small units concerned.

6.2.13 **Complementarity Small Industries**

Effective small industry sector can substantially enhance the efficiency of large factories by relieving them of making certain parts or performing certain operations which the smaller outside units perform at lower cost. Providing and promoting various kinds of complementarity between large and small industries is an important aspect of industry development as a whole.
6.2.14 Export Marketing

As far as exports are concerned the situation in which the small industry of Iran is trapped, has happened to other countries in the initial stages of industrialisation. The development was directed naturally, first of all towards the meeting of the needs of the domestic market and if possible import substitution, and the government must promote extensively the exports of manufactured goods by small units. But it must be remembered that no developing country was able to enter the export phase of the small industries efficiently without a full scale help of the respective governments.

6.2.15 Steps to be Taken

There is absolutely no doubt that a considerable export potential exists in the small industries of Iran, and perhaps larger than in many countries which are already exporting sizeable amounts of the products of their small scale industries. The result will be totally insufficient if the government does not help to overcome all the problems and difficulties faced by the small industries, venturing into the highly competitive export markets.

6.2.16 Measurements of Trends in the World Market

Up-to-date techniques and skills are important to keep pace with the customer's changing tastes and requirements. All trends in the world markets must be carefully studied and should be quickly followed up.
6.2.17 **Standardisation and Quality Control**

To establish product reputation, it requires standardisation of specification, and uniformity of quality, both of which called for strict quality control.

6.2.18 **Presentation**

The domestic packing and packaging in general not sufficient when it comes to exporting. Therefore, small exporters must be absolutely convinced that good packaging is an important factor for successful opening of the export business.

6.2.19 **The Managerial Problem**

One of the crucial problems encountered in accelerating the growth of the small-scale industry in Iran, qualitatively as well as quantitatively, is the lack of an energetic and skillful group of creatives, innovating, achievement-motivated entrepreneur-managers. This short-coming is reflected both in production as well as in financial management of the enterprise.

Although, most of the small manufactureres are well aware of specific technical problems. They do not seem to be interested in such specific production management measures such as preventive maintainance of equipment, work flow improvement, work simplification, production scheduling and control.
6.2.20 **Financial Management:**

Problems like proper accounting, costing and cash-flow budgeting are typically cloaked by the felt need for greater working capital. In their preparation of pre-investment calculations working capital is often neglected or only regarded as a balancing financial post of the budget.

6.2.21 **Management Aid**

Besides the managerial problems, all the small manufacturers lack the management aid of industrial research. Although, research performed by qualified specialists falls beyond the financial scope of small industry, there are many types of applied industrial research beneficiary to small-scale units.

6.2.22 **Recommendations**

The following suggestions are to initiate a scientific approach to the above described difficulties and problems of small industries in Iran.

1. It is suggested to establish the institute for small-scale industry. The main targets of this institute are proposed to be:

   - Promotion of the selected growth of small industries. The objective should be, not to keep the industry small but to help efficient small units to grow. Smallness, as such would not be favoured or rewarded unless the unit is efficient also.
- Promotion of management improvement including marketing, personnel relations and training, financial training and other elements of an efficient conduct of a manufacturing enterprise.

- Promotion of technical improvement and adaptation of existing technology to local conditions. Small industrialists need to be brought in touch with the best production methods that science and technology can offer. Existing methods have to be adopted to such conditions as smaller and more isolated markets, expensive capital, abundant and cheap labour and so on.

- Promotion of complementarity among different types and sizes of industry as described in detail earlier.

Once the creation of this institution has been decided, the technical problems related to its implementation have to be investigated in detail together with the definition of the task and competencies of the different sub-departments of the institute.

2. It is proposed to establish three main sub-departments in the institute for small-scale industries:

- A department for industrial advisory services.

- A department for training of entrepreneurs-managers and supervisory personnel.

- A department for industrial research services.
3. The department for small industry advisory services may be subdivided into four sections:

- A group on economic guidance on promising new lines of manufacture, for expansion of existing firms or entry of new ones.

- A group for technical advice on such problems as selection of machinery, improved processes, better use of machines and materials and better supply of materials.

- A group for production and business management counsel on plant location, plant layout, costing, marketing, financing, personnel management and so on.

- A group for assistance in product design and improvement. The work of this group is very strong, mutually interrelated as well as related to the work of the research department.

4. The department for training entrepreneur-manager and supervisory personnel should go farther than a miniature programme of management training for large firms since the tasks of one-man management are in many respects quite different.

5. An indispensable support for the proper functioning of the advisory department is a research department performing properly directed industrial research devoted to small
industries. The establishment of a research department without the assistance of an extension service to disseminate the results and to bring industry problems to the research organisation gravely limits its usefulness, particularly in so far as small-scale industry is concerned.
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