

CHAPTER I

SMALL IS BEAUTIFUL AND BENEFICIAL

1.1: INTRODUCTION:

The small-scale industry is a very important sector of the Indian economy today. The small scale industry with its relatively low capital intensity and high employment generation potential has an important role to play in the process of economic development of the country. It also helps to reduce the regional disparities.

The small-scale industry produces, together with the village industries sector, around 49 percent of the total industrial output and employs over 75 lakh people¹.

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Rapid industrialisation is one of the best ways for the Indian economy to come out of the vicious circle of poverty. The growth of merely a large-scale sector is bound to create miseries to millions in the form of unemployment, shortage of consumer goods and concentration of wealth in a few hands². As a result, basic problems of these countries like unemployment, shortage of foreign exchange and paucity of capital will be accentuated. Under these circumstances, small-scale industries are undoubtedly better suited since majority of them are labour-intensive and capital saving. Besides, they are characterised by very short gestation period³.

Dr.E.F.Schumacher has challenged the doctrine of economic, technological and scientific specialisation and proposes a system of intermediate technology based on smaller working units, communal ownership and regional work places utilising local labour and resources. His famous book 'Small is Beautiful', with the emphasis on the person and not the product, points the way to the world in which capital serves man instead of man remaining slave to capital. Schumacher says that "We need methods and equipment which are

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- cheap enough so that they are accessible to virtually everyone;
- Suitable for small-scale application; and
- Compatible with man's need for creativity"⁴.

There are several arguments in favour of small-scale industries in India. These arguments highlight the importance of small-scale industries in India.

GREATER EMPLOYMENT POTENTIAL:

Emphasising the employment argument Karve Committee stated: "The principle of self employment is at least as important to a successful democracy as that of self-government"⁵. This argument is based on the assumption that small enterprises are labour intensive and thus create more employment per unit of capital employed. This argument has been opposed by Dhar and Lydall. They hold that employment should not be created for the sake of employment. There should be an economic justification for it also. They argue, "The important problem..... is not how to absorb surplus resources, but how to make the best use of scarce resources"⁶. Mr.R.Venkataraman has challenged the argument of Dhar and Lydall.

The Nobel Laureate, Dr. Gunnar Myrdal has also argued in favour of employment potential of small-scale and cottage industries in his famous book Asian Drama. He states: "Now consider the house-hold or cottage industries. They require very little capital. With any given investment, employment possibilities would be ten or fifteen or even twenty times greater in comparison with corresponding factory industries"⁷.

CAPITAL LIGHT:

The small-scale industries require smaller amount of capital. These industries make possible economies in the use of capital. In a developing economy like India capital is scarce.

IMPORT LIGHT:

Small-scale industries use a lower quantity of imported materials and equipments as compared with the total amount invested in them. Large industries require imported machinery, raw materials and in some cases foreign skills also. This means that the government has to release scarce foreign exchange resources. Small-scale industries hence are preferable to large-scale industries in as much as they do not normally require imported machinery.

SKILL LIGHT:

Large scale industries require a great deal of management skills and technical expertise. For instance, they require managers, foremen, engineers, technicians etc. These skills are scarce in a country. Hence their use should be economised. Small scale industries do not require specialised skills. On the contrary, they provide industrial experience and may turn out managers, some of whom may be able to manage large-scale industries.

SCOPE FOR FULL USE OF EXISTING RESOURCES:

There may be the existence of entrepreneurial ability in the countryside, but his ability may not be brought-forth because they live in rural areas and savings at their disposal are also small. These latent resources should be brought out and canalised for industrial purpose. Small-scale industries are able to tap these latent resources like entrepreneurial ability, hoarded wealth etc. Thus, according to Dhar and Lydall, small-scale enterprises encourage the growth of a new class of organisers.

BALANCED REGIONAL DEVELOPMENT:

There exists regional disparities in India. Some regions are more developed than the others. One of the

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major objectives of economic planning in India is to bring about balanced regional development of the country. Small-scale industries help to achieve the objective of balanced regional development.

The Third Five Year Plan emphasised the need for balanced regional development—"Balanced development of different parts of the country, extension of benefits of economic progress to the less developed regions and widespread diffusion of industry are among the major aims of planned development"⁸.

ECONOMIC DECENTRALISATION:

Large scale industries help to earn a high income by a few persons. This leads to the concentration of income and wealth in a few hands. As against this, small-scale industries help to produce and distribute income on a wide-scale. They facilitate an even sharing of the benefit of industrialisation and national income.

SELF EMPLOYMENT:

Small-scale industries serve as a source of self employment. They enable self reliant persons to start enterprises and thereby strengthen the economy of the country. In fact, young self-employed entrepreneurs form the backbone of developing country.

HELP TO LARGE SCALE INDUSTRIES:

Small scale industries can play a role complementary to large-scale industries. There are a number of products which are related to the products manufactured by large scale enterprises. Large scale enterprises require these products for the manufacture of these items. For instance, parts of bicycles, motor cycles, motor cars, nuts, bolts, screws and such small products can be conveniently produced by small scale industries and supplied to large scale enterprises.

ADAPTABILITY:

Small scale industries can adapt themselves to variable market conditions. The demand for commodity may change in a short period. Now, small scale industries can also change accordingly. Due to low fixed cost, small enterprise is flexible.

EQUALITY ARGUMENT:

Income generated in a large number of small enterprises is dispersed more widely than income generated in a few large-scale industries. In large-scale industries there is concentration of economic and monopoly power whereas small-scale industries provide income benefits to a large proportion of population. Thus development of small-scale industries brings about greater equality of income distribution. Moreover, persons with small means and savings can enter easily in the small scale.

QUICK AND HIGH RETURNS:

The time required between application of inputs and coming out of output is shorter in case of small scale industries. Thus, capital invested in small industries returns soon and supply of essential consumption goods and capital goods comes to market.

1.2: FORMULATION OF THE PROBLEM:

The present study is related to the working of small scale engineering industries in Dharwad city. The small-scale engineering industries have played a very crucial role in promoting the regional development of Dharwad and surrounding regions of Dharwad city. The situation of Dharwad city is largely conditioned by environmental factors. The location of Dharwad city is on a beautiful site with striking picturesque surroundings and excellent hillocks half-hidden rising grounds. The twin-city of Hubli and Dharwad were separate towns before 1962. In March 1962 they were brought under a single Municipal Corporation. Dharwad is a district headquarter and is popular as educational, cultural and administrative centre. Hubli is well known for its commercial and industrial establishments.

Selection of the topic of "The Working of Small-scale Engineering Industries in Dharwad city" for the present study is based on many reasons. They are as follows -

Firstly, Dharwad is an urban area and there appears to be the need of studying importance and potentiality of small-scale engineering industries.

Secondly, Dharwad is a growing industrial area which opens many challenges for all industries, including engineering industries.

Thirdly, there is vast scope for the development of modern engineering industry.

Fourthly, in the light of the proposed large scale automobile factory to be established near Dharwad by Tata Engineering and Locomotives Ltd (TELCO)⁹, the present study will be of great advantage to know the scope for the development of ancillary and engineering industry. This is so because - "THE TELCO has as many as 250 small scale suppliers, who supply 50 percent of the bought out components valued at about Rs.8500 per truck. Many TELCO ancillaries have developed competence to supply spare parts for replacement. Some have even entered the export market"¹⁰.

Sixthly, technological progress is much faster in engineering industry which affects the whole structure of the industry.

Seventhly, Small-scale engineering industry has the potentiality to generate more employment and at the same time it is relatively capital intensive.

Eighthly, Backward and forward linkages are more in engineering industries.

1.3: REVIEW OF EARLIER STUDIES:

Even though many studies are conducted on the working of small-scale industries in different parts of India, so far very little effort has been made on the study of the working of small-scale industries in Dharwad city. The present study is conducted to fill this vacuum.

1. A SURVEY OF HANDICRAFTS IN EIGHT DISTRICTS OF MYSORE:

STATE¹¹ was conducted by Prof.S.S.Menasinkai in 1961.

The object of this survey was to study the economics of handicrafts in eight districts of the Mysore State, viz, Dharwad, Bijapur, Belgaum, North Kanara, South Kanara, Gulbarga, Raichur and Bidar.

This study covered 14 important handicrafts which were selected for an intensive and detailed study. The study included, among other things, an assessment of the production potential, cost structure, financial and organisational problems and an estimation of the degree of under-employment.

The research methodology followed was as follows -
The survey was based on a cent percent enumeration of the establishments in all 14 handicrafts covered by this study since the number of establishments in each handicraft was found to be small. In all there were 306 establishments, giving on an average, about 22 establishments per handicraft.

The important findings and suggestions of this study were as follows -

1. A large percentage of the establishments (62%) lacked organisation.
2. Even though buildings were necessary for carrying out production, these buildings were found to be very much over-valued. The suggestion was to economise investment in such assets. It was possible by bringing together all workers under a common workshop wherever possible.
3. There was not enough work for the workers and they were under-employed.
4. The cooperative form of organisation had covered about 45% of the workers only.
5. Some of the cooperatives were not properly managed and some of them were likely to be closed down. The suggestion was given to the Government to deal firmly with such societies and must put a proper check on their working.

Prof. Menasinkai's survey covered the working of handicrafts in eight districts of Karnataka, where as the present study relates to the working of small-scale engineering industries in Dharwad city. The present study excludes handicrafts from its scope of study. The survey of Prof. Menasinkai was based on cent percent enumeration of establishments where as the present study is conducted under sample survey method by taking 25% samples of small-scale engineering units.

2. A survey of "Engineering Industry in a developing economy"¹² was conducted by Dr.D.M.Nanjundappa and Prof. M.V.Nadkarni in 1964. This study covered 34 out of 64 engineering industrial units at Hubli.

The methodology of research followed was as follows-

The Directory of small-scale industries at Hubli and the list of industries started at Industrial Estate of Hubli provided the basic source of selection of units for investigation. The list was brought upto date by personal enquiry. In all there were 64 units. They were broadly classified in seven categories and a purposive sample was adopted. The study also undertook a dealers survey.

The response on the whole was satisfactory. Very few manufacturers could give details regarding sales and trends in their turnover. But they did not result in any gross distortions of the conclusions of the study.

The authors have observed that - "The engineering industry is assuming increasing importance in the industrial life of India in view of the emphasis on machinery manufacture and the scope in many instances for wide and gainful employment opportunities in relation to investment. Large-scale developments are proposed in this sector since the inauguration of development plans. Technically, the engineering industry provides the foundation to be laid for further industrialisation over the next 15 years. While the public sector would concentrate on projects for the production of machinery and heavy machine building, the private sector will get immense scope for the manufacture of an extensive range of engineering goods. Besides fostering the technical know-how and providing the much needed machines and other goods required by all industries, it also provides sufficient scope for diversification of output in its sector"¹³.

Dr. D. M. Nanjundappa and M. V. Nadkarni have made a very useful attempt to study the Engineering industry of Hubli city. The present study covers the small-scale engineering

industries at Dharwad. It excludes the small-scale engineering industrial units at Hubli from its scope of study.

3. "AN INQUIRY INTO THE ECONOMIC PROBLEMS OF PROCESSING INDUSTRIES"¹⁴ was made by Dr.T.K.Meti and Dr.M.A.Adhoni in 1974. This study covered the processing industries in Hubli-Dharwad Corporation area. The objectives of the study were -

1. to understand the relative roles of each type of different processing industries;
2. Assess the excess capacity of the plants installed by processing industries;
3. Study the structure of these industries in terms of capital, outlay, employment generation, financial arrangement etc.
4. Suggest policy implications.

Summary and Policy implications involved in the study were as follows:

1. The existing industries that process different types of commodities operate below their installed capacity due to one or the other difficulty. Effective measures such as augmenting agricultural surplus to feed these

industries and financing these industries liberally through suitable banking policies and cooperative loans, are necessary.

2. The proprietor of these industries are required to make their endeavours more profitable.
3. The processing industries need to take more and more interest in creating good industrial relations.
4. Very limited number and types of processing industries operate at present. The Government should devise proper policies of promoting a number of processing industries.
5. The processing industries are intermediate small-scale industries and hence proper coordination between large industries and small industries is needed.

Dr.T.K.Meti and Dr.M.A.Adhoni have made an inquiry into the economic problems of processing industries at Hubli-Dharwad Corporation area. The present study covers only the small-scale engineering industries in Dharwad city. It excludes the processing industries from the scope of its study. Dr.Meti and Dr.Adhoni's work was published in 1974. In the past ten years many changes have also taken place in the structure of processing industries in Dharwad.

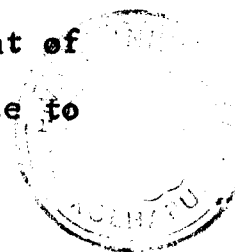
4. "A GEOGRAPHICAL ANALYSIS OF HUBLI-DHARWAD REGION"¹⁵

by Shri.M.F.Karenavar aims at assessing the geographical analysis of Hubli-Dharwad region. The study attempts to explain the dynamic factors like cultural, administrative, commercial, industrial as well as historical events which have influenced its growth structure and regional relationships. The entire work is planning-oriented by focussing attention on various city problems like housing, transportation, commerce, industry, recreation and community factors.

5. In the "Karnatak Chamber of Commerce and Industry Hubli Golden Jubilee Souvenir"¹⁶ two papers were published on industrial development of Karnataka and Dharwad D.I.C.

The paper by Shri.V.Krishnan on "Industrial development of Karnataka"¹⁷ has surveyed in general the industrial development in Karnataka.

The second paper by Shri.C.Chikkanna on "Dharwad District Industrial Centre"¹⁸ has dealt with the concept of D.I.C., its organisational set up, its functions, achievements of Dharwad D.I.C. so far, industrial potential of Dharwad District existing and proposed, identification of entrepreneurs and development of skills, artisan development, special assistance to



industries like financial, marketing, supply of raw materials and concessions to industries.

6. A brochure entitled "Assistance available to the public in industrial sector"¹⁹ published in Kannada by the District information and publicity office, Dharwad in association with DIC, Dharwad contains the following information.

- i) D.I.C. and its working;
- ii) Establishment of industrial units with the help of available resources;
- iii) Reasonable marketing facilities;
- iv) Loans at lower interest rates; and
- v) Institutions providing financial and other facilities.

7. "Promotion of Industries, Souvenir"²⁰ published by Karnatak Chamber of Commerce and Industry, Hubli in 1982 consists of the following seminar papers which are important in the light of the present subject -

- i) "Growth of small-scale industries in Northern Karnataka" by N.R.A. Rao and
- ii) "Scope for new industries in Northern Karnataka and facilities offered by KSSIIDC for starting industries"

The organisers of the seminar have felt that there is a persistent regional variation in the industrial development of Karnataka State. Most of the industries have been heavily concentrated in some centres of Southern Karnataka. Though there are abundant agricultural, mineral and forest resources, industries are not coming up satisfactorily in northern part of the state and hence it has become industrially backward.

8. The Taluka Development Board, Dharwad has published a booklet in Kannada on "The Encouragement, Concessions and Facilities for Development of Industries in Dharwad Taluka"²¹ in 1983. It has given the account of Trysem, special facilities and concessions given to tiny, small-scale and ancillary sectors industries.

9. The Small Industries Service Institute, Hubli has released a brochure on "Industrial Potentialities of North Karnataka At A Glance"²² at the time of the opening ceremony of the new building of SISI at Hubli on 7th April 1984. This brochure gives an outline of the industrial potentialities of North Karnataka region with a view to giving a broad idea of the likely products and areas which can be profitably taken up and developed by the prospective entrepreneurs in the region. This brochure has dealt with the origin and growth of SISI, Hubli

physical features, administrative set up, human resources, agriculture, forest resources, livestock, mineral resources, infrastructure, industrial estates and financial institutions of North Karnataka area. It has also dealt with trade and industry, industrial development prospects in the region, role and activity of SISI, Hubli, package of incentives, large and medium establishments in the region and some of the medium and large-scale industries which are likely to be set up in the region.

1.4: AIMS AND OBJECTIVES:

Following are the main objectives of the present study.

1. to study the working of the small-scale engineering industrial units in Dharwad city with a view to identify problems faced by them.
2. to study the impact of development of small-scale engineering industries on the regional economy.
3. to suggest ways and means with a view to improve efficiency of the working of these units.

1.5: METHODOLOGY:

In the light of the above stated objectives, necessary data was collected from various sources.

A. SECONDARY DATA:

The secondary data was collected through census, records of District Industrial Centre, Dharwad, Five Year Plan Drafts, Report of the Small Industries Development Organisation 1979-80, Reserve Bank of India Bullentins, India Annuals, Manorama Year Book, Small Industries Service Institute Publications, Publications of District Industries Centre, Dharwad, etc.,

B. PRIMARY DATA:

The above mentioned information was more general and hence a detailed questionnaire was prepared to collect necessary information. The specimen of the questionnaire is given in Appendix-I.

There were 64 small-scale engineering units working in Dharwad city. As the time was limited, it was decided to take a suitable sample of these 64 units and hence 25% sample was thought suitable. These 16 units out of these 64 units were selected with the help of random sampling method. A questionnaire specially prepared for the purpose covering the aspects of general information, capital structure, raw materials, production, marketing, workers employed, design, training facilities etc., was sent to these selected units and later on they were contacted personally. The field survey was conducted during May 1984.

1.6: CHAPTER SCHEME OF THE STUDY:

The present study is divided into five chapters.

Chapter-I was introductory.

Chapter-II deals with the role of small scale industries in Indian Economy. An attempt is made here to study the changing concept of small scale industries in India, definition of small industries in other countries, role of small industries in Indian economy, industrial policy governing small scale industries and the development of small scale industries under five year plans.

Chapter-III highlights the geographical, historical and economic review of Dharwad. It also deals with the details of industrial sheds and plots in Industrial estates, industrial areas, registration of small industrial units in Dharwad district etc.

Chapter-IV deals with the analysis and interpretation of data specially collected for the purpose of present study from selected sample units of small scale engineering units in Dharwad city.

Chapter-V deals with the findings and suggestions. These suggestions aim at the rapid development and in improving the efficiency of small scale engineering units of Dharwad city.

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