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CHAPTER : II : : CONCEPT OF SMALL SCALE INDUSTRIES

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CHAPTER-II

CONCEPT OF SMALL SCALE INDUSTRIES

Small Scale Industries have a vital role to play in the economic development of country like India with abundant human resources but scarce financial resources. The basic objectives of Small Scale Sector of our economy are :-

1. To create immediate and permanent employment on a large scale at a relatively small cost.
2. To meet the growing demand for consumer goods as well as simple producers' goods.
3. To facilitate mobilisation of resources of capital and skill which might otherwise remain under-utilised.
4. To bring about an integration of the development of Small Scale Industries with the rural economy on the one hand and with big businesses on the other.
5. To ensure a more equitable distribution of the national income and wealth, and
6. To avoid some of the problems created by urbanisation and growth of big cities and towns.

In Industrial Policy Resolutions of 1948 and 1956, the Small Scale Sector was given a special role for creating additional employment with low capital investment. A new thrust was given in favour of small industries by Industrial Policy Statement of 1977. Our Five Year Plans have also given unique

importance for the development of Small Sector. Central and State Governments are encouraging formation of Small units by providing them necessary facilities like supply of finance, raw-material, technical aid and so on.

As a result, Small Scale Industrial Sector in our country has developed quite rapidly particularly over the last two decades. According to the Office of the Development Commissioner (SSI) at the end of 1980 there were nearly 8 lakhs registered Small units in the country which employed over 67 lakhs people. It means Small Scale Industrial Sector is apparently successful in creating large scale employment for many unemployed and underemployed people in our country.

But inspite of rapid growth of small sector, it is observed that labour is grossly neglected factor in majority of the small scale industries in the country. The labour conditions are very unsatisfactory. Millions of workers employed in small units lead a life of adject poverty and continuous insecurity. Inadequate wages, social security and welfare facilities, leave facilities, unsatisfactory working conditions, non-payment of bonus and dearness allowance have crippled the morale of most of the workers in small units.

So an attempt is made in this dissertation study to critically analyse the conditions of labour in small units and also labour problems faced by them with special reference to Satara district. However, before entering into an analytical study of the subject, it is necessary to examine the concept of small industry as it is emerged in India, today.

(A) SMALL SCALE INDUSTRIES : EVOLUTION AND DEVELOPMENT OF CONCEPT

In India, the concept of small-scale industries has undergone periodic changes. From 1954, the definition of small scale industries has been modified time to time.

DEFINITION GIVEN BY SMALL SCALE INDUSTRIES BOARD(1955) :-

In order to implement the plan for promotion of small-scale industries in the country, a working definition of small-scale industry was given by Small-Scale Industries Board, an All India Body established in 1954 for overall planning, coordination and promotion of small scale industries in India. At its first meeting held on 5th and 6th January 1955, the Board adopted the following working definition of small-scale industry.

"A unit employing less than 50 persons, if using power, and less than 100 persons without the use of power, and with capital assets not exceeding Rs.5 lakhs."

But in a short period, it was felt that the working definition did not serve the purpose, particularly from the point of view of maximum utilisation of equipment and of capital outlay. With a view to enable the labour intensive industries employing more than 50 workers in more than one shift to avail the benefits of this programme, the Ceiling imposed on the overall employment was reduced to one shift in 1959. Again in 1960, the ceiling on labour was completely withdrawn, retaining the ceiling on capital investment, thereby permitting a unit irrespective of the number of persons employed therein to avail the concession of the assistance programme.

DEFINITION-1966 :-

The need for introducing the latest technology in small scale sector to improve its competitive strength and the growing increase in the cost of imported machinery necessitated a change in the definition of small-scale industries. A revised definition of small-scale industries was consequently adopted in 1966. This definition was as follows :-

"Small-scale industries 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 will mean investment in Plant and Machinery only. For ancillary industries, the maximum limit for investment in Plant and Machinery was fixed at Rs. 10 lakhs."

DEFINITION-1974 :-

In view of the steep increase in the prices of capital equipment and of replacement costs, the need for an upward revision of the present ceiling on capital investment in the definition for small-scale industries, had become obvious. A revised definition was consequently adopted in 1974, which was as follows :-

"Small-scale industries include all the undertakings having investment in fixed assets in plant and Machinery not exceeding Rs. 10 lakhs and Ancillary Industries Rs. 15 lakhs."

TINY SECTOR-1977 :-

For the purpose of effective promotion of the cottage and small-scale industries which were widely dispersed

in rural areas and small towns, a new sector -- the Tiny Sector -- was created for the first time in 1977. All industries with a capital investment of 1 lakh in plant and machinery and located in rural areas and small towns, are included in the tiny sector, so that financial institutions and other development agencies may give special attention to their rapid development.

DEFINITION-1980 :-

Small-scale industrial units argued that an investment of Rs. 10 lakhs, would not be sufficient to buy half the plant and equipment, which they could buy when the limit was raised in 1975. This has resulted in many illegal and unfair practices. In view of this representation by small units, and in order to boost their development and ensure their growth, the Government raised the level of investment in 1980, as follows :-

- 1) The limit of investment in tiny sector has been raised from Rs. 1 lakh to Rs. 2 lakhs.
- 2) The limit of investment in small units has been raised from 10 lakhs to 20 lakhs ; and
- 3) The limit of investment in ancillaries has been raised from Rs. 15 lakhs to Rs. 25 lakhs.

SMALL SCALE INDUSTRIES
AND COTTAGE/VILLAGE INDUSTRIES

In 1953-54, International Planning Team was invited by Ministry of Commerce and Industry, to report on the measures that might be adopted to develop small scale industries in India. This Team, along with other measures recommended that, " Small industries have to be treated separately from village/cottage

industries in future planning and formulations. The small unit is an integral part of modern industry, while the village/cottages industries, with their emphasis on handicrafts, are not necessarily so. Government of India accepted the above recommendations and from 1954-55, small industries were treated separately from village/cottage industries.

The above fact gives rise to a new concept that the small industries are those industries which do not form an integral part of village economy on the one hand and on the other, where capital investment in the form of plant and machinery does not exceed Rs. 20 lakhs in case of non-ancillary small units and Rs. 25 lakhs in case of ancillary units;"

(B) CONCEPT ADOPTED FOR STUDY :-

The concept of small industry adopted for the purpose of this study is as follows :-

"Modern small scale industry means small industry which on the one hand, fulfills the requirements of emerging modern economy, has progressive outlook, is ready to adapt to changing conditions and on the other hand, where capital investment in the form of plant and machinery does not exceed Rs.20 lakhs in case of non-ancillary units and Rs.25 lakhs in case of ancillary units."

Therefore, in this dissertation study village/cottage industries are not considered at all.

CLASSIFICATION OF SMALL SCALE UNITS :-

In this dissertation work, all the small scale industries in Satara district are classified into ten major

groups which represent more than 75% industrial activity in the district. These groups are :

1. Foundries, Engineering Works and Electro Plators.
2. Steel and Wooden Furniture and Timber Merchants.
3. Plastic and Rubber Products.
4. Chemicals and Dyes.
5. Cement Pipes, Tiles etc.
6. Textile and Art Silk Mills.
7. Cold Drinks and Ice Factories.
8. Printing Presses and Paper Industries.
9. Shoes and Leather Industries.
10. Others.

Small units are also classified on the basis of capital employed, as follows :-

1. Tiny units employing capital below Rs. 2 lakhs.
2. Small units employing capital above Rs. 2 lakhs but below Rs.10 lakhs.
3. Small units employing capital above Rs. 10 lakhs.

(C) A CASE FOR SMALL-SCALE INDUSTRIES :-

Small-scale industries have been the subject of controversy in the past and the controversy continues even to this day. Some are ardent supporters of small enterprises, while others vehemently oppose them. It would be worthwhile to examine the arguments favouring the growth of small enterprises. All these arguments have been briefly summarised in the Industrial Policy Resolution of 1956, which are as follows :

1) THE EMPLOYMENT ARGUMENT :-

The argument suggest that "the principle of self employment is as important to a successful democracy as that of self Government". The argument is based on the assumption that small enterprises are labour-intensive and thus create more employment per unit of capital employed. It is also assumed that the low cost on overheads in such enterprises partly compensates for the otherwise high cost vis-a-vis large enterprises. Thus, it is argued that, let alone capital goods industries and the building up of social and economic infrastructures where capital intensive projects are a necessity, in other spheres of production in a developing economy, small enterprises which help to enlarge the volume of employment with scarce capital should be encouraged.

This argument is opposed by Dhar and Lydall, who hold that employment should not be created for the sake of employment. There should be economic justification for it also. They argue that "Employment as such can be created by simply adding on extra workers at any point one like in the productive (or non-productive) process. The important problem in other words, is not how to absorb surplus resources, but how to make the best use of scarce resources."¹ It implies that small enterprises maximise out-put from scarce capital and entrepreneurship. Employment creation follows as a necessary corollary. They also state that, though apparently small enterprises appear to employ less capital per unit of output but, "in general the most capital intensive type of manufacturing establishment is the small factory using ~~no~~

1. Dhar and Lydall, The Role of Small Enterprises in Indian Economic Development. P.11

machinery and employing upto 50 workers*.

2) THE IDEALISTIC ARGUMENT :-

The purely idealistic school advocates the revival and promotion of cottage and small-scale industries to keep alive the old traditions and ideals. Thus the advocates of small-scale industries wish to decentralise industries on the basis of old ideal village community, which used to be self contained in itself.

But this idealistic approach can not work in the fast moving scientific age of today.

3) THE EQUALITY ARGUMENT :-

The equality argument suggests that the income generated in a large number of small enterprises is dispersed more widely in the community than income generated in a few large enterprises. In this way, small enterprises bring about greater equality of income distribution.

Dhar and Lydall consider this argument as fallacious. Statistical evidence suggests that, " there is a common tendency, in all countries, for the average wage (or salary) to be lower in small enterprises than in large enterprises. Moreover the non-existence of trade unions in small enterprises enables the employers to exploit worker to the maximum. Thus, it is true that workers in small-industries are neither economically better off than in large enterprises, nor do they obtain more benefits under social security schemes. Small enterprise, therefore, by paying low wages, generate less savings and less taxes and hence result in low growth potential. But this criticism is not all true. Small

enterprises definitely play an important role in bringing equality of income among masses. There is, of course, no denying the fact that small enterprises encourage competitive elements, generate the impulses of self-development and weaken the formation of monopolies.

4) THE LATENT RESOURCES ARGUMENT :-

It is the most convincing argument which goes in favour of small enterprises. It suggests that small enterprises are able to tap latent resources like hoarded wealth, enterpreneurial ability etc. Dhar and Lydall feel that mobilisation of hoarded wealth is only a once-for-all gain. True, it is so, but it is not a fact that the idle hoards set in motion are an income stream which moves on and on. To the extent small enterprises encourage dishoarding, there is definite gain to the community. Secondly, small enterprises encourage the growth of a class of small entrepreneurs which introduces a dynamic element in the economy. Dhar and Lydall feel that in view of the low levels of remuneration to the entrepreneurs in small enterprises, "there is no evidence of an overall shortage of small entrepreneurs in India." The assertion does not appear to be very sound. If the small entrepreneurs were present in abundance, then what obstructed the growth of small enterprises? The growth of entrepreneurial class requires an environment. Small enterprises provide that environment which encourages a growing network of leaders and complementary relations among plants and firms. It is in this environment that latent talents of individual entrepreneurs find self expression in localised innovations and cost-saving measures. The growth of a very large number of firms in the post independence period only

highlights the fact that given the basic conditions such as supply of power and credit facilities, the latent resources of entrepreneurship can be tapped by the growth of small enterprises only.

5) THE DECENTRALISATION ARGUMENT :-

This argument impresses the necessity of regional dispersal of industries. Large enterprises are mostly concentrated in metropolitan cities. The smaller towns and the country side in order to benefit from modern industrialism must encourage small enterprises. Industrialisation of the country can become complete only if it penetrates into the remote corners of the country. It may be true that it may not be possible to start small enterprises in every village, but it is quite possible to select a group of villages and start small enterprises to cater to the needs of the small area from the local centre. The International Perspective Planning Team rightly pointed out that "a policy of trying to implant large amount of industry in the most backward areas as directly in village is doomed to be a failure and can not be justified economically.... The focus for industrial development under a dispersal policy should be neither the metropolis nor the village, but rather the large range of potentially attractive cities and towns between these two extremes."² Decentralisation of industrial enterprises also helps to tap local resources and also improves the standard of living in the backward regions. Moreover, decentralisation help to solve the problems of congestion in the few industrial towns by enlarging the area of employment.

2. Report of the International Perspective Planning Team, 1963
P.13.

To conclude, it can be said that the case for the development of small-scale industries in our country, which is developing nation, is quite sound. It has been amply proved from the foregoing discussion that small-scale industries possess all that is required for the industrial reconstruction. These industries have enough labour potential, technology, lesser capitalisation, adaptability to new ideas, technique, managerial skill and talents. These industries have dual "diffusion and demonstration" effect. Small-scale industries need to be developed along with large enterprises. This is also the accepted policy of the government.

D) PRESENT POSITION OF SMALL-SCALE ENTERPRISES IN INDIA :-

Much before Industrial Revolution in the West, India was famous for its industrial products throughout the world—such manufactured goods as textiles, muslins, metalware etc had reached a high mark of excellence. During the British rule, these industries declined and decayed in competition with mass produced British goods. But these industries did not wither away completely. During the Second World War, these industries made some progress. After independence, government undertook various steps to revive many old small-scale industries and to establish new ones. As a result of such efforts, these industries have again come to occupy an important place in country's economy. These industries are significant specially from the view point of employment. Next to agriculture, these industries provided employment to the largest number of people. As per estimates of the Sixth Plan those industries in 1979-80 employed 236 lakh persons

of these traditional industries (e.g. Khadi, handicrafts etc) accounted for about 133 lakh persons. In comparison the large and medium industries employed only 45 lakh persons.

From the angle of value output, too, those industries occupy a high rank in the national economy. The share of these industries in 1979-80, was 49 per cent in terms of gross output, and 51 per cent in terms of value added. In the field of exports this sector accounted for more than one third of the total exports of the country.³ Small scale units produce a variety of goods, electronics, plastics, ceramics, precision, instruments, machine tools, spare parts, cloth, silk, gur, soap, paper etc. Quite a few among these industries are now exporting large quantities of goods to many countries.

From the regional point of view these industries are of considerable importance. They are to be found scattered in every nook and corner of the country; in villages, towns and cities. As against these, large scale industries are to be seen concentrated in a few places, creating regional imbalances. Thus small scale industries are very important for the country's economy from various angles.

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3. Report on currency and finance Vol. I.P. 41.