

INTRODUCTION :

Small scale industries play significant role in India's economic development. Next to agriculture, the main thrust is on Promotion of Small Scale Industrial Units Constitution of India, various five year plans have paid attention to the development of Small Scale Industries.

MEANING & DEFINITION :

The basis of distinction between the large scale, medium scale and small scale industries is generally the size, finance and labour force of the individual unit.

- i) The small scale industries are mainly located in Urban centres as separate establishments, the cottage industries are generally associated with agriculture and provide subsidiary employment in rural and semi urban area.
- ii) While small scale industries produce goods with partly or wholly mechanised equipment, the cottage industries involve operations mostly by hand and that too by family members..

Fiscal commission 1950, 'A cottage industry is one which is carried on wholly or partly with the help of family members either as a whole time or Part-time occupation, A Small Scale Industry on the other hand is one which is operated mainly with hired labour usually 10 to 50 hands.

Probably, this definition prompted the Industrial Development and regulation act 1951 to exempt units employing less than 50 workers with power and less than 100 workers with power from registration. This exempted sector, came to be known as the small sector.

Another criterial of distinction is fixed capital investment in a unit. This limit is raised from time to time upward direction. Prior to 1975 it was 7.5 lakhs and in ancilliary units it was 10 lakhs. From 1st May 1975 the definition was revised to cover undertakings having investments in fixed assets in Plant & Machinery not exceeding Rs. 10 lakhs and in the case of ancilliary units Rs. 15 lakhs. The Industrial Policy Statement issued on 23rd July 1980 further revised upward ceilings from 10 to 20 lakhs and from 15 to 25 lakhs. At present units involving fixed capital investment less than Rs. 20 lakhs are included in the small sector. For ancilliary units, the ceilings is Rs. 25 lakhs. Tiny sector includes industrial units having fixed capital investment of Rs. 2 lakhs (previously one lakh). According to 1986 industrial policy small scale industrial units are those having Rs. 35 lakhs investment in capital assets and for ancilliary units Rs. 45 lakhs.

The small scale and village industries are a hybrid of units of various types ranging from the age-old house old industries to modern mechanised Small Scale Units.

CHIEF CHARACTERISTICS :

Small Scale Industries investment of not more than 20 lakhs irrespective of the number of persons employed.

- i) They are localised in urban and semi-urban areas.
 - ii) They provide whole time occupation to their workers.
 - iii) They use machines, power and modern equipment.
 - iv) Their capital investment is less than Rs. 20 lakhs.
 - v) They are run by small entrepreneurs or self supporting workers and sometimes by co-operatives.
 - vi) They also use hired labour and use such raw materials as often came from long distances and their products are marketed over large areas.
 - vii) Small Scale Industries may be either Part-time or whole-time urban and rural industries.
- A) Part-time Small Scale Industries - Consist mostly of seasonal industries engaging Part-time labour e.g. brick making, pottery, lime making etc.

B) Whole time urban Small Scale Industries - include Small perennial factories in urban areas such as small hosiery plants, engineering plants, chemical industries, printing press etc.

C) Part-time rural Small Scale industries - cover all seasonal factories in rural areas concerned with processing of agricultural produce, rice-milling, dal-mill, Khandsari etc. Whole time rural Small Scale industries include such industries as carpet making etc.

1. These industries have been regarded as important instruments for attaining the economic and social objectives of economic reconstruction of the country.
2. They produce consumer as well as investment goods.
3. They are the most essential element in the proper fabrication of the basic materials.
4. Act as supplementary and complimentary to medium and large scale.
5. They provide immediate large scale employment.

BROAD DIVISION :

- i) Traditional industries based on traditional skills and techniques.

- ii) Modern Small Scale industries making use of modern technology.

Traditional industries are sub-divided into two categories :

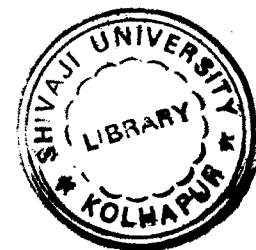
- i) Handicrafts producing - requiring high skill. e.g. wood and ivory carvings, carpet etc.
- ii) Village and house hold industries producing common consumer goods - e.g. pottery, leather goods, hand woven textiles etc. These village industries are highly labour-intensive. Small Scale Sector comes under the jurisdiction of the Development Commissioner of Small Scale industries.

ROLE & SIGNIFICANCE :

Small Scale and Cottage industries have an important role to play in India's industrial development. In 1979-80 they contributed 49% of gross value of output and 51% of total manufacture. Large and medium sector provided employment to 235.8 lakh persons. It is about 5 times.

The II plan started the **role** and significance of Small Scale industries on following points :

- i) Generation of employment opportunities.



- ii) Helps in equitable distribution of national income.
- iii) Mobilisation of capital resources.
- iv) Mobilisation of entrepreneurial skills.
- v) Regional dispersal of industries.
- vi) Efficiency of Small Scale Industries.
- vii) Less industrial disputes.
- viii) Contribution to Exports.

ARGUMENTS IN FAVOUR :

1. Since capital is scarce and labour abundant in India, the employment argument is the strongest argument in favour of Small Scale Industries. It was primarily on creating employment potentiality that the V Plan had planned for the setting up of 2 Lakh units in Small Scale Sector. It was expected that these units would provide employment to 20 lakh people. (P.C. Mahatrobis)
2. The small scale sector is more efficient especially when one taken into account its employment potential.
3. Equitable distribution is achieved :
 - i) the ownership of Small Scale Industries is more wide spread.
 - ii) they possess a much larger employment potential.

Workers are unorganised and can not fight for their rights, low paid workers. In all countries including England, U.S.A. West Germany, Japan and India, Small Scale Industries have and failed to achieve the objective of equitable distribution of income and decentralisation of economic power. Small Scale Industries enable a vast majority of people to share the fruits of economic development.

4. Rural savings and talent can be effectively utilised.
5. Effect qualitative change in the economy of the State example of Punjab.
6. Apparently employer-employees relations are harmonious, actually it is not so.
7. During 1981-82 total exports stand at Rs. 7,358.00 Crs. of which the share Small of Scale Industries share was Rs. 1,686 Crs. or 22.9%.

The reasons for this emphasis are manifold. They are as given below :

1. Small Scale Industrial Units utilize the local resources.
2. They provide immediate employment.

3. They are labour intensive.
4. They can diffuse the ownership of assets.
5. They are good instruments for dispersal and decentralisation.

6. They promote entrepreneurship.

7. They can be used to avoid evils associated with concentration of economic power and products in few hands.

8. Small Scale industrial units, if developed in backward regions may avoid inter-regional disparities.

In a capital-scarce and labour -abundant economy like India Small Scale Industries are a Sine qua non.

Strategies adopted to promote Small Scale Industrial Units in India.

Development of Small Scale industries is within the jurisdiction of State Governments, but, considering their importance in the national economy, Central Government paid more attention for their development by providing number of provisions, facilities, concessions etc. They are as given below.

FINANCIAL ASSISTANCE : Small industries need long, term, medium term and short term loans. For these purposes, Financial corporations have been set up at State levels. In Maharashtra, Maharashtra State Financial Corporation has been set up in 1962. Besides these Nationalised banks supply working capital, Maharashtra State Small Industries Corporation supplies raw materials, besides, arranging for Hire-purchase machinery, raw material, orders from Government.

FISCAL ASSISTANCE : Exemption from Octroi, Sales tax, Subsidy for capital investment in backward regions, concessional loans at low rate of interest are provided.

INFRASTRUCTURAL FACILITIES : It is a known fact, that Small units suffer from non-availability of land, water, transport, electricity at cheaper rates. The provision of Maharashtra State Electricity Boards, Maharashtra Industrial Development Corporation, industrial areas etc. meet these difficulties.

Reservation of Goods for the production in Small Sector: Nearly 847 goods are reserved for Small Scale Industries Sector.

SERVICES :

1. Various autonomus boards have been established by the Govt.
2. A three tire organisation was developed - the ministry of Commerce and Industry at the centre, All India Boards, and State Departments of Industries and State Boards.
3. Industries Officers were appointed at the district and block levels.
4. The programme of Industrial Estates have been provided on a large scale. 401 in March 1972 to 662 in March 1979 & No. of sheds functioning to 13,467 from 7,070. Common facilities like power, water, transport, etc. are at one place.
5. Various facilities - Credit, Training Facilities, technical advise, supply of improved seeds and techniques.
6. Assured market for the products of Small Scale Industries.
7. Special steps for the organisation of industrial Co-operatives as a means of promoting Small industries.

I & II Plan laid down basic policies with outlay of Rs. 5.3 crs. & Rs. 218 Crs. respectively. Outlay of III Plan Rs. 264 Crs. IV Plan - 293 Crs. V Plan Rs. 611 Crs. Technical advice and assistance to Small Scale Industries is provided by Small Industries Development Organisation through its net work of 25 service institutes, 18 branch institutes, 41 extension, 5 production & 3 training centres.

PROBLEMS FACED :

However number of problems are to be encountered by Small Scale Industries.

- i) Lack of finance and credit.
- ii) Scarcity of raw materials and Imported components.
- iii) Machines and other equipment.
- iv) Lack of marketing facilities.
- v) In-efficient management and low technical skill.
- vi) Non-availability of cheap power.
- vii) Unchanging and unresponsive production pattern.
- viii) burden of local taxes.
- ix) Keen competition from large scale industries.

The concept of District Industries centres was enunciated by the Janats Govt. in its industrial policy statement of Dec. 1977. It was envisaged to establish one

agency in each district called the DIC. mainly to provide and arrange for a package of assistance and facilities for credit guidance, raw materials, training, marketing etc. including, the necessary help to unemployed educated entrepreneurs. The programme was initiated on 1st May, 1979 and so far 392 districts (of the total 406 districts in the country) have been covered by 382 DICs.

The importance of these industries have been emphasised in the Industrial Policy Resolution of 1956 in these words.

They provide immediate large scale employment; they offer a method of ensuring a more equitable distribution of national income and they facilitate an effective mobilisation of resources of capital and skill 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."

The following types of industries may conveniently be developed.

1. Industries which are connected with assembling, mixing & finishing operation such as footwear, clothing,

knitwear hosiery safety fuses, chemical mixers, insecticides and pesticides, pharmaceuticals, bakery, confectionary etc. leather goods, sports goods, synthetic resins, printing ink, industrial salts, plastic goods, sewing machinery, radio & fans.

2. Industries which are engaged in processing or in manufacturing goods which are ancillary to large scale Industries; such as vegetable oils, ginning and pressing of cotton; spare parts for machinery; dye-stuffs; sundries motor vehicles repair shops, machine repair shops; and industrial services like enamelling plating, galvanising, Polishing and lacquering of metal goods.
3. Industries which produce weight gaining and bulk-gaining, products like bricks, tiles concrete goods; ploughs; buckets, steel trunks wooden and metal furniture.
4. Industries dealing with resources such as dal milling, rice flour and oil mills, saw mills, tanneries.

5. Industries which produce goods for direct consumption as well as for industrial use, such as pharmaceutical preparations, cosmetic, hair oils, conveyors and earth moving equipments, photographic chemical mixers etc.
6. Industries connected with traditional handicrafts such as ivory products, jewellery, artistic handicrafts, glass-wares, decoration pieces, and clinical equipments.

PROGRESS OF A SMALL SCALE INDUSTRIES :

As a result of all these facilities, it has been found that the number of small scale industrial units rose five times in the eighties over the sixties (2) Fixed Capital by Six times, (3) Value added by nine times (4) employment by three times during 1965-66 to 1980-81.

Inspite of this progress signs of sickness started appearing since the seventies. The number of sick units in large and small sector is rising. And sickness has pervaded all types of industries.

As a matter of fact, sick units are weeded out in competitive process, but, the government's policy of socialistic pattern of society stands in the way. Entrepreneurs are not free to close the sick units for the fear of unemployment that may occur. But persistence and continuation

of sick units on a large scale may mean wastage of time, money, energy, raw materials, reduction in volume of production.

Against this background study of sickness in small scale industrial units becomes imperative. One has to know the causes and identify sick units, so that some measures can be adopted to overcome and cure the sickness.

OBJECTIVE OF THE STUDY :

In recent years, the problem of industrial sickness has caused grievous concern to Government Financial Institution, & all other affected parties including entrepreneurs, managers of industrial units. Demoralising effects of such sickness & colossal wastage of physical, financial & human resources demand focussed attention to the problem. It poses a great challenge to the managers on both the sides to the givers of resources i.e. Government & Financial institution & also to the receivers of resources i.e. entrepreneurs & managers.

The researcher intends to diagnose sickness in Small-scale industrial units by identifying internal and external causes to prevent its spread to other units. Internal causes are those which fall within the control of the management of the firm, while external causes are those over which management has no direct control.

The present study aims to;

- 1) Examine the growth of Small-Scale industrial units in India, in respect of number of units, output, employment export etc.
- 2) Study how far large-scale industrial units are responsible for the sickness of Small-Scale industrial units in terms of creating shortages in the supply of raw material and competition.
- 3) To know the differences in the management of sick and healthy Small-Scale industrial units belonging to the same line of business.
- 4) To know other reasons causing sickness.
- 5) Suggest some remedies.

SCOPE OF THE STUDY :

The present study covers the units identified as sick units by DIC. Kolhapur.

CONCEPTS OF SICKNESS, SICK UNIT DEFINED :

- 1) According to 1986, industrial policy Small Scale industrial units are those having Rs. 35/- lakhs investment in capital assets and for ancillary units Rs. 45/- lakh in Investment.

2) SICK UNITS :

- i) The State Bank of India defined a sick units as one "Which fails to generate internal surpluses on a continuing basis to meet its obligations and depends for its survival on frequent infusion of external funds"^{1*}
- ii) The Central Small Industries Development Organisation defined a sick unit as one which works below 20% of the installed capacity.^{2*}
- iii) For the purpose of merging the sick units with the healthy, Government of India has classified those units where the losses, past and present, have eroded 50% of the capital and reserves as sick.^{3*}
- iv) The Financial Institutions (term-lending) treat a unit as sick when it,
 - a) has continuously defaulted in paying four consecutive half-yearly instalments of interest on principal.

1* Decision, volume 6 No. 1, Indian Institute of Management, Calcutta.

2* M. Srilaxmi Prasad : Industrial sickness, Topical Review, Sendoc Bulletin II, Vol. 8 No. 8, Aug. 80.

3* A correspondent, Sick units : A Non-emotional approach, Eastern economist, Vol. 70, No. 3, 20th Jan. 1978; P-112

- b) has continuous cash losses for a period of two years or continuous erosion in the net worth by 50%.
- c) has mounting arrears of statutory and other liabilities^{4*} for a period of 1 or 2 years.
- v) The Reserve Bank of India identified a sick unit as one which has incurred cash losses for one year and in the judgement of the bank, is likely to continue incurring cash losses for the current year as well as in the following year and the unit has an imbalance in its financial structure such as current ratio is less than 1:1 and there is a worsening trend in debt equity ratio, i.e. total outside liabilities to the net worth.

(Manufacturing, processing, preservation and servicing are included in the term industrial unit.

Certain clarifications are needed to help in correct identification.

"Many a times, even if borrowers are able to repay the loan, they default the loan purposely" of bad intentions.

"Units which have closed down or where no business is being transacted are to be classified as sick. However,

4* S.N. Bidani, P.K. Mitra : Industrial Sickness, Identification and Rehabilitation, Vision Books, 1982 P-26

the financing bank should ensure that the position as stated by the firm is correct and not based on hearsay.

NORMAL UNIT : A unit is called normal when all its functional areas like production, marketing, finance and personnel are functioning efficiently. If it is earning profits, the current ratio is more than one, net worth is positive and debt-equity ratio is good, it can be declared healthy.

Following precautions should be made further to identify sickness correctly :

- a) A unit may be doing well, but it does not repay loan installments due to bad intentions of the promoters. Such a unit is not a sick unit.
- b) Units which have been closed down are to be classified as sick.
- c) Where a company is having more than one unit, performance of the company as a whole should be considered.
- d) Units which have been provided rehabilitation assistance should be considered sick till such time they resume to normal working.
- e) Sickness should not be confused with incipient stage of sickness.

In the above paragraphs correct identification is emphasised. Though, it is important, it is more useful to know about the sickness in its very initial stage. With this view-point spotting of the following symptoms may help early detection :

- 1) Non payment of installments as mentioned earlier.
- 2) Delays in submission of control statements/data without adequate explanation.
- 3) Slow turn over and over valuation of current assets.
- 4) Slow retirement of bills.
- 5) Non payment of statutory and other liabilities as mentioned earlier.
- 6) Delayed finalisation of periodical/final accounts.
- 7) Labour unrest and lay-off due to non-payment of wages and other dues.
- 8) No operations in cash credit accounts due to diversification of sale proceeds.
- 9) Fraudulent removal and disposal of assets charged to banks and financial institutions.
- 10) Charges in accounting period to cover up poor profits or losses.

- 11) Adoption of different methods of stock valuation for different accounting periods.
- 12) Qualifications made in the auditor's reports to the effect that certain essential provisions have not been made in the accounts.
- 13) Revaluation of fixed assets without assigning any valid reason.

METHODOLOGY OF THE STUDY :

The analysis of the study 'Industrial Sickness in Small-Scale Industrial Sector - with reference to some selective units in the industrial estate of Shivaji Udyamnagar, Kolhapur' is based upon secondary and primary data as the main objective of the study is to diagnose sickness in Small Scale industrial units & to identify the causes of such sickness. The secondary data meant for studying the extent of sickness growth of sick units and the assistance of Government to Small-Scale industrial units are collected from District Industries Centre, Kolhapur, and from the reports, of Development Commission Small Scale Industries New Delhi, and the Small Industries Development Organisation & the reports from the Five Years Plans.

There are 3 Small-Scale industries declared as sick in the Kolhapur District. Out of these 10 units are in the area of Shivaji Udyamnagar, Kolhapur. All these 10 units have been

covered for the studies. For diagnosing the causes of sickness and its extent the entrepreneurs of the selected units were personally interviewed with a structured questionnaire. Form this questionnaire are given in the appendix.

LIMITATIONS OF THE STUDY

The present study is confined to Small-Scale units in the industrial estate of Shivaji Udyamagar area only. All the 10 units registered in the area and on the list of D.I.C. have been covered. Only these 10 have been considered as a sample. The period of study covered from 1979-80 to 1987-88. As the dissertation is required to be submitted within one year there is a constrain came under time. Almost all the units belong to proprietorship (Sole trading concerns) or partnership firm whatever information is obtained from them was not that open and hence carries not that much weightage in coming to certain conclusions.