Cottage and Small Scale Industries

A Reclassification

M C S

THE definition of the different sectors of the industrial structure of an economy has to be based on a pragmatic appraisal of the prevailing conditions, with due allowance for adjustments and variations, if it is to be economically meaningful. Such an approach is needed all the more in the context of a growing economy, fast developing as a result of conscious and planned efforts on the part of the people and their government.

The need for categorising industrial activities into certain broad sectors arose from the necessity of providing ameliorative measures for the unorganized industrial sectors in the face of ever increasing competition from their organized counterparts. Since the main concern was to distinguish the unorganised sectors from their organised counterparts, the problem of evolving a scientific definition was a subordinate one and was only incidental to the general and more important problem of framing policies and devising ways and means for the provision of official aid. The result has been that, more often than not, one found certain workable descriptions of the different sectors of industrial activities rather than scientific definitions.

Criteria Adopted in the Past

It is important to bear in mind that the general basis or the criteria adopted for evolving scientific definitions depend mostly on the purpose they are required to serve. Thus, while the official purpose may lie in seeking to regulate and control and/or bring about a harmonious balance in the development of the different sectors of the industrial structure, that of academic studies consists in throwing into relief the conditions obtaining in each of these sectors either relatively or individually and to diagnose these objectively in order either to serve as a guide for those who are charged with the task of formulating policies or as a basis for empirical enquiry.

A review of the various past definitions of the cottage industries indicate that the following factors formed the main basis of these definitions: (1) Work-place; (2) Employment; (3) Motive power used; and (4) Extent of market served. Thus a unit was, broadly speaking, termed a cottage unit when

(1) the production activities are conducted in the residence of the artisan;
(2) the unit, employed is mostly family labour;
(3) the unit was run mainly on manual labour; and
(4) the market for the unit’s products did not extend beyond the locality where the unit was situated.

The Rural and Cottage Industries Sub-committee of the National Planning Committee of the All-India Congress (5939) defined industries of different size-classes with reference to (1) the use of power and the average quantum thereof, and (2) employment of hired labour and the average number thereof. (National Planning Committee, Rural And Cottage Industries', 3949. First edition, p 53. However, this involved not only considerable overlapping but also consideration of individual units for being fitted into one or the other of the size-classes. The Fiscal Commission sought to distinguish between cottage and small scale industries on the primary criterion of the use of hired labour. (Report of the Fiscal Commission', 1949-50 Vol I, p 99.)

Regional Variations

Apart from the varying degrees of emphasis placed on one or more of the different criteria by different authors, it can also be observed that different Provincial Committees and Government agencies evolved and adopted definitions more or less to accord with the general conditions prevailing in their respective regions. Thus, for example, the Bombay Economic and Industrial Survey Committee (1938-40), precluded the use of power by cottage industries, whereas the UP Cottage Industries Committee and the Government of Madras provided for the use of power in cottage industries. Again, while the U P Committee allowed for the organization of these industries on more or less commercial basis, Bombay and Madras did not. Significantly, however, all the three definitions were unanimous about (1) the work-place being separate from the residence of the artisans, and (2) employment of hired labour- of course, with a ceiling of 9 workers (as in the case of the U P). They were also unanimously silent over the extent of capital employed and the market to be served.

Two points become clear from this brief review. There is an utter lack of uniformity in the basic criteria employed and ambiguity in the form and content of these definitions. None of these provide & ready and adequate yard-stick to distinguish the cottage industries from the rest. Perhaps, these drawbacks were inherent in the very nature of the objectives sought to be achieved. The point to be noted here is that, if these definitions failed to clearly define cottage industries as they operated a decade or so ago, their applicability today is more doubtful indeed. For, it may justifiably be maintained that none of the four criteria mentioned earlier could be taken to reflect, either individually or collectively, the present status and the general characteristics of 'cottage' industries. Perhaps, it may even be contended that these characteristics of the traditional industries of India have since been or are being gradually eliminated.

Small Scale Industries

The present status and the operative conditions of a majority of the so-called cottage Industries appear to be of the same complexity, if not magnitude, as those of what are termed small scale industries. For example, a carpentry unit engaged in the manufacture of utility goods such as furniture, employing relatively improved and modern equipment, pr a blacksmithy unit using a lathe, either hand-operated
or power-operated, or, again, a cobbler working on a sowing machine and other mechanical devices are today termed as cottage industries, but in effect they are small-scale industrial establishments.

Informed academic opinion, of late, has come to accept that both for purposes of scientific analysis and developmental efforts, it is desirable to forget the term cottage industries with all its connotative implications and speak only of small scale manufacturing establishments.

Recent Classifications

Notable among the recent classifications is the one adopted by the Regional Programmes Committee of the Planning Commission. The surveys of small-scale industries undertaken under its aegis do not generally distinguish between cottage and small-scale establishments, but include all units (a) which use power and employ less than 10 workers (including family labour) and (b) which do not use power but employ up to 20 workers. Thus in the survey of 'Small Scale Industries in Delhi', conducted by the University of Delhi under the auspices of the R P C, a small-scale establishment has been defined to include "a manufacturing or processing establishment working with not more than 19 and less than 2 persons and with a minimum block capital of Rs 250."

The size limit imposed by the above definition both in respect of capital as well as employment is designed, on the one hand, to include all industries or establishments which have been excluded from coverage by the Census of Manufactures, and also to exclude "very small sized cottage industries, which are based mainly on one-man economic activities on the one hand". It may also be added here that the exclusion of one-man establishments was mainly to avoid difficulties of coverage and for purposes of differentiating between the cottage and small scale industries.

A more or less similar demarcation has been employed by the National Sample Survey in their series of Rounds, in the coverage of industries. Even the National Income Committee (1954) followed a similar basis inasmuch as the sector of small enterprise was taken to comprise of the residual of all economic activities falling under the classification 'industry' by the Census, minus, those coming under the Indian Factories Act, 1948.

TWO TRENDS

Similarly, the various State Directorates of Industries restrict the term small scale to only such industrial establishments as fall beyond the purview of the Indian Factories Act, 1948. In other words all establishments which employ less than 20 workers without the use of power or less than 10 workers using power, are generally treated as small scale industrial establishments. Of course, for purposes of administering the Central Government aid to industries in their respective States, the various State Governments adhere to the definition adopted by the former, which will be referred to presently. However, the Bureau of Economics and Statistics of the Government of Bombay, in a series of surveys of various cottage and small scale industries, confined to the pre-reorganised Bombay State, has defined a small scale establishment as one with a capital investment of more than Rs 6,000 but less than Rs 30,000. The criterion of employment adopted was more than 9 and less than 50 workers.

As against this, the Development Commissioner for Small Scale Industries, Government of India, Ministry of Commerce and Industry, defines a small-scale unit as one which has capital assets not exceeding Rs 500,000 and employs less than 50 persons, if power is used or less than 100 persons if no power is used. In order that a unit may be termed as small scale, both the criteria should be satisfied. This definition generally excludes all industrial establishments which come under the ambit of the Industries Development and Regulations Act, 1951, on the higher side, as well as all those industries which are covered by the five other All India Boards such as the Khadi and Village Industries Commission, All India Handloom Board, All India Handicrafts Board, etc on the lower side. In its application this definition is treated with utmost flexibility. All unit?; in industries such as the sports goods industry, have been treated as small scale irrespective of their size.

It should be conceded that as a working formula, the above definition has much to commend itself. It not only attempts to avoid overlapping and duplication, but also has the merit of combining the three essential criteria, viz, capital, employment and power. This imparts a harmonious blend and renders it a more or less composite definition. For, the application of any one of the criteria without being related to the other two, would result in misleading classifications. This is especially true, as will be seen presently, in the context of recent technological developments, which have tended to be both labour-saving as well as capital-saving.

Concepts Not Clear

Taking, however, the two broad trends in this sphere, as noted
above, it can be seen that there is considerable ambiguity and lack of unanimity both in the general approach to the problem as well as in the criteria adopted. Besides, doubts may also be expressed about the exact meaning attached to certain terms and concepts used in these definitions. For example the term 'capital assets' used in the Central Government definition, may mean first, the aggregate resources, i.e., the fixed as well as working capital, commanded by a unit. It may also mean, as is officially interpreted, only the fixed assets component of the total capital resources. Though the Government of India has not adopted any definite views on these matters, the Small Scale Industries Board, at its meeting held in September 1957, has clarified the term 'capital assets to include "land, building and equipment, This is not all. What about those units which work in rented premises? How and on what basis is the 'original' as well as the depreciated value of that portion of the premises which is occupied by a unit on a rental basis to be imputed? Again, will the method of assessing the 'original' value of the land and buildings, as is suggested by the Small Scale Industries Board, be satisfactory in imputing the present 'market' value of these assets?

Take again the terms 'persons and the 'workers' employed. The term 'persons' is not the same thing as 'workers', and the total number of 'persons employed by a unit may be much more than 'workers' employed. In the aggregate of 'labour-inputs' for a given unit of output in any plant, is included those not only of 'workers', but of many more who may be classified as 'others'. Where a direct correlation between a unit of output and labour input thereon can be established, such labour is generally termed as workers. Where such direct correlation cannot be established but has to be imputed indirectly, such as in the case of managerial, supervisory, clerical and the ministerial staff they are categorized under 'others'. An addition to or withdrawal from the existing force of 'workers' is directly reflected in a corresponding variation in the total output; whereas such additions or withdrawals from the category of 'others' need not show, at least to any perceptible degree, correspond-
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fore, to the many kinds of official help which are normally available to those now classified as small scale units. In point of fact, these may have all the difficulties and handicaps besetting a small scale unit. As it stands today, therefore, the present definition appears to put a premium on capital intensive units.

**Technology and Scale of Operation**

There is yet another important point to be considered. This pertains to recent technological developments and their effects on plant-size, as measured by the conventional standards. These developments have tended to reduce the number of workers or capital saving. If the various automations and the other “switch-hoard” apparatus are “labour-saving,” there is also an equally impressive array of mechanical devices and techniques of rationalization, which are “capital-saving.” These developments rule out either number of workers or capital by themselves as reliable measuring devices of scale of operations. For, if technology is labour-saving and/or capital saving, it will reduce plant-size, if measured by any one of these standards, even if by all other standards it may remain the same or keep increasing.

**The New Criteria**

Recent thinking is therefore focussed on finding standards other than either capital or employment alone. The new criteria include the average net value added per-unit; the average H P of power per worker; the average capital-per-worker; and last but not of least importance, the devise of “Representative Size” as evolved by P Sargent Florence. It should be added, however, that there are perceptible variations in the degree and extent of the impact of the forces of technology among different countries in the world today and further that in an underdeveloped country like India, technological developments have not advanced to such extent as to vitiate measurement of scale of operation determined by the criteria of capital and employment, in conjunction with other factors. For this reason, besides capital and employment, the following factors should also be kept in view in determining scale of operation: (1) technique of production; (2) volume of output; (3) sphere and extent of market; (4) quantum of power used; (5) level of organization; and (6) number of labourers employed and relationship with such labourers.

Keeping in view these as also the various other factors discussed earlier, the following suggested classification may be examined:

1. Handicrafts or the Traditional Industries;
2. Hand and Household Industries;
3. Small Scale Industries;
4. Medium Scale Industries; and
5. Large Scale Industries.

In what follows an attempt is made to delineate the important characteristics of each of these categories in relation to the factors noted above. Attention will be focussed principally on the first three sectors. An attempt will also be made at the end to provide a quantitative basis for each of the above categories, in terms of total capita employed and employment afforded.

**Handicrafts**

The term Hand and Household industries is not meant to be a mere substitute for either cottage or the handicrafts industries. It is meant to connote a basically different concept. Cottage industries, apparently, may mean any industry which is run either from, or near the house of the owner. This is to say, it does not necessarily mean, as is often sought to be implied, those traditional or handicraft industries, which are better known for their: (1) exclusive reliance on manual operations; (2) dependence mainly, if not exclusively, on family labour, and (3) utility as a complementary adaptation to agriculture and for supplementing the total income of the agricultural families. Hand-spinning, beekeeping, handspinning of rice, the “atta-chakki” or hand-grinding into flour, and sericulture, etc. may be cited as instances The point of importance here is that primarily they are the subsidiary means of livelihood of the families undertaking these industries.

There are also such line arts and crafts cane work, lacquered work, gold and silver works, ivory articles, wood carving, etc. which are whole-time occupations and are also traditional industries. But the important point about them is that, by their very nature they are not capable of being run on machinery or electricity and are dependent exclusively on the accumulated dexterity and craftsmanship inherited, so to say, through the generations. Generally, their products are not amenable to “standardization.”

**Household Industries**

On the other hand there are industrial occupations which of late are designated by the term cottage industries but which basically differ in essence from the handicraft variants. Their important hallmarks can be summed up as follows:

1. They constitute invariably the principal means of livelihood of the artisans;
2. Their saleability mainly depends on the utility value of the products rather than on artistic or sentimental considerations;
3. They need not entirely depend on family labour but may also employ outside hired labour;
4. They need not necessarily be located in the dwelling places of the artisans concerned, but may be housed separately;
5. The skill and the training involved in these industries can be acquired through institutions other than those of ‘traditional inheritance’ without impairing the quality of the product or efficiency of operation, unlike those of artistic handicrafts;
6. These have potentialities of being run on electricity and other power driven machinery and can be reoriented into small scale organized units.

**Small Scale Industries**

Small scale industrial units essentially connote an identity of management and ownership. The processes of manufacture involved are relatively simple without necessitating an elaborate set of specialized machinery and equipment. Their efficient functioning does not call for any elaborate set of specialized managerial skills. There is an intimate, personal relationship between the proprietors (or the manager) and the workers, both because of the relatively small number of persons employed as well as the absence of specialization in the day-to-day management functions. Their requirements of capital are very modest and the sources of
finance are usually restricted to friends and relatives. Their best guarantee, both in respect of credit requirements and market outlets, is their personal contacts and the relationship with their customers.

It may not be correct to assume that all industrial establishments falling under this sector form a homogenous group. On the contrary they may display a maze of diverse complexities. For example, a few of them may employ power-driven machinery and may exclusively depend on hired labour, while there may be others which employ only the traditional hand-operated equipment. Some of them may be working all-round the year, while others may be working only seasonally. While some may undertake job work and repairs, others may manufacture composite products. Some may have a restricted local market while others may have national or even international markets. There may be many who are dependent on dealers and other intermediaries for the disposal, of their finished products and for financing their various operations while others may no these on their own. This is by no means a complete list of the various complexities and diversities found among the small scale industries but is only illustrative. What is important, however, is the fact that it is possible to generally distinguish these from the medium and large-scale industries on the one hand and the household type of industries on the other.

Medium Scale Industries

Considering the medium scale industries, it is necessary to concede at the very outset that they may have many basic characteristics to distinguish them from the first three categories, but these characteristics may not be substantially different from those of the large scale industries. For example, there are quite a large number of industries which involve huge capital investment and require elaborate organizational apparatus and yet are conducted on a scale which do not qualify them to be termed large scale. These units may have the 'headaches' of the small scale units for some purposes and the 'bother' of the large scale ones in others.

This point may be illustrated with reference to the Glass Product Manufacturing industry. A unit of this industry in the Bombay State, has a total capital asset not exceeding Rs 5,00,000 but employs in its various branches of operation and management a complement exceeding 100 persons. The machinery and equipment they have include two Tank Furnaces, the replacement cost of each being roughly Rs 1,50,000; an Annealing Lehr (Baking Oven) with conveyor belts the initial cost of which was estimated at roughly Rs 50,000 and the replacement cost at Rs 1,00,000.

It was gathered that the unit wanted to replace these two sets of equipment with those which could be run on electricity but are at the moment deterred owing to financial difficulties. The replacement of these equipment, it was reported, would not only raise productivity of the plant, but also provide for more employment. This is an instance of a unit which partakes the qualities and characteristics of a large scale unit while it has all the difficulties besetting a small scale unit. Instances such as these could be generally found in many more industries. Naturally these industrial units can be termed as medium scale units.

Capital and Equipment

According to an analysis of 21 out of the 29 industry-groups found in the Indian Census of Manufactures 1953), the average per unit investment for industries under the size class 20-19 employees, works out at Rs 1,55 lakhs, ranging from Rs 0.31 lakhs to Rs 3.22 lakhs. (These 21 industry-groups are: 1) Wheat Flour, 2) Rice Milling, 3) Biscuit Making, 4) Fruit and Vegetable Processing, (5) Gour, (6) Vegetable Oils, 7) Paints and Varnishes, 8) Soap, 9) Tanning, (10) Glassware, (10) Ceramic (12) Plywood and Tea-chests, (13) Paper and Paper Boards i14 Matches, (15) Bicycles, (16) Sewing Machines, (17) Woollen Textiles, (18) Cotton Textiles, (19) Electric Lamps, (20) Electric Fans and (21) General Engineering.) The average per unit employment works out to be persons with a range of 26 to 38. Considering the important characteristics discussed earlier, it may be taken that under the classification small scale observed earlier, all units with a capital investment not exceeding Rs 3,00,000 and employing less than 50 persons may be included. This roughly gives a maximum of Rs 6,000 as the total capital per person which figure may be accepted as the maximum per person investment reasonably representing a small scale unit.

It may be noted here that Professor Bert F. Hoselitz, after scrutinizing existing figures of investment for small scale units in India (Economic Weekly, February 22, 1958) arrived at an All-India average of RR 1,622 per worker as investment only in machinery and equipment. Assuming that investment per worker in other items, such as land and building and working capital, to be roughly double this figure (Rs 3,244), the aggregate investment per Worker comes to Rs 4,866 or in the neighbourhood of Rs 5,000. A more or less similar trend could be discerned from an analysis of the figures available from the various Planning and Analysis reports of the Development Commissioner for Small Scale Industries, New Delhi.

Coming to the medium scale industries, the characteristics mentioned under the head earlier appear to more or less correspond to the size-classes "100-249" employees. That is, all units with a capital investment not exceeding Rs 35,00,000 and employing more than 50 and less than 300 persons may be taken as medium scale industries.

The rest, naturally, fall under the classification large scale industries.

The five-fold classification of industries provided above is primarily meant to provide an unambiguous basis for a rational differentiation of various types of industries, keeping in view the overall objective, as briefly outlined earlier. The object of revising the capital limit downwards in the case of small scale units is to provide a truly labour-intensive bias to the classification. The category of medium-scale industries, as defined here, would go a long way in putting the 'middle-sized' units into the forefront for official help.

In conclusion, it should be emphasised that no rigid set of standards would provide an adequate definition of industries. In this respect it is well to remember that in the USA different sets of criteria are applied in defining different types of industries and categories of establishments. This only reinforces our contention that the criteria of capital and employment should be tempered by the other qualitative characteristics referred to earlier.