



# RESEARCH ON COTTAGE INDUSTRY: A REVIEW

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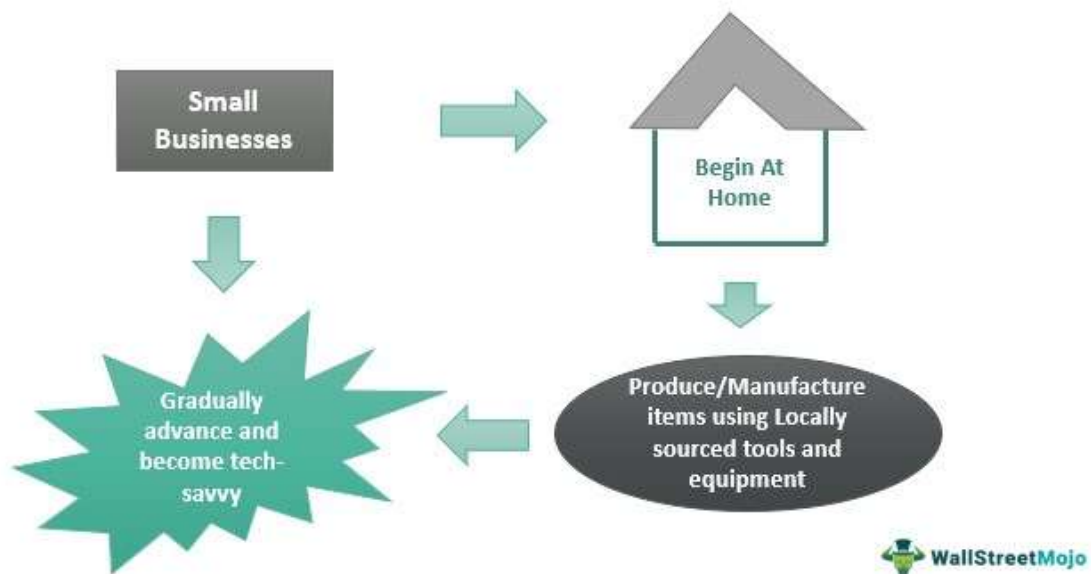
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## I. INTRODUCTION

Small-scale industries, also known as cottage industries, are usually defined as home-based businesses with fewer workers, who may or may not be family members. In certain cases, such as when producing goods, these workers are traditional artisans and craftsmen who have inherited their craft from their ancestors. Dress fabrics like khadi, wool, muslin, leather, silk, cotton, etc., as well as numerous valuable items like jewellery, ornaments, statues, idols, gems, and stones, as well as edible items like spices, oils, honey, etc., are among the many goods they produce. These items are in high demand both in India and abroad.

Starting out as a modest family business, the cottage industry grew over time to become one of the most successful segments of the market. Families were compelled to live independently when the majority of people did not dwell in metropolitan areas. They frequently had to watch out for the manufacturing of their clothes, food, and other necessities. In order to establish a modest facility to produce their clothing and kitchenware, the family members started pooling their resources. They would sell any surplus they created for a profit if it exceeded their consumption. Over time, the side business generated a range of logistical and trading support services. The cottage industry acts as a small-scale industry as, in most cases, these setups do not have the scale required for mass production.

### What Is A Cottage Industry?



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A common definition of a cottage industry does not exist. The definition of this industry varies greatly from nation to nation and is dependent on the viewpoint of the users. Nonetheless, the majority of nations typically take into

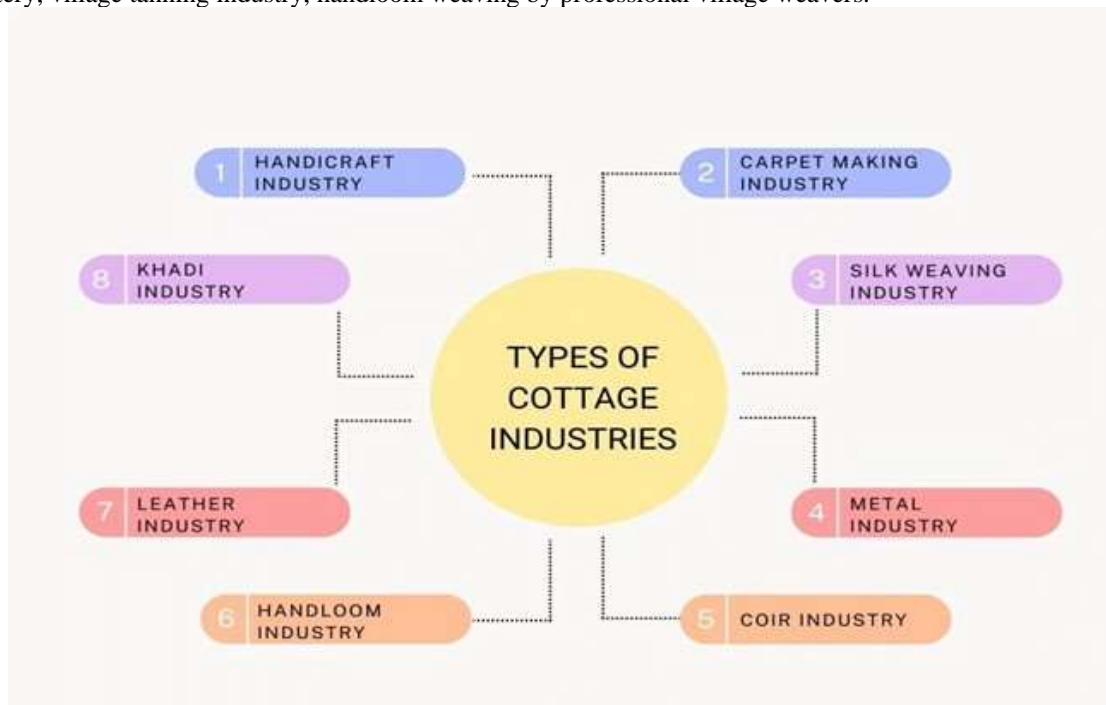
account three main settings. These are the amount of capital invested, the total turnover, and the number of personnel in that organisation. As per the World Bank (2009), cottage industries are ones in which family members manage and own the business and work there either full-time or part-time. On the other hand, small businesses are those with between 10 and 50 employees that engage outside labour. Additionally, cottage industries employ traditional production methods rather than sophisticated machinery and produce a large majority of their goods by hand. Small-scale industries, on the other hand, employ contemporary instruments and technologies.

India has one of the largest and oldest cottage industries worldwide. The sector produces a wide variety of dynamic products that are released into the market, reflecting the diversity of the nation. Indian cottage industry is classified as small scale industry (now small, micro and medium firms) and is typically an unorganised sector. The sector uses traditional techniques to make consumable goods. These kinds of industries typically start out in rural areas where underemployment and unemployment are common. With consideration for the potential to create jobs, preserve cultural heritage, and spread industrial activity to underdeveloped areas, India's cottage industries are destined to play a major role in the nation's economic development. This sector has a lot of promise for creating jobs and exporting goods. Given that over 90% of the industry's output is exported to numerous foreign nations, it is especially export-oriented. The top five industries in the nation are leather manufacturing, silk weaving, cotton weaving, small scale food processing like pickles, meticulously done metal handicrafts, and carpet making.

## II. TYPES OF COTTAGE INDUSTRIES

1. **First category:** Those cottage industries which provide supplementary occupation to the cultivator are placed in this category, e.g., handloom weaving, basket making, rope making.

2. **Second category:** This category consists of village crafts like blacksmiths carpentry, oil-pressing by ghanis, pottery, village tanning industry, handloom weaving by professional village weavers.



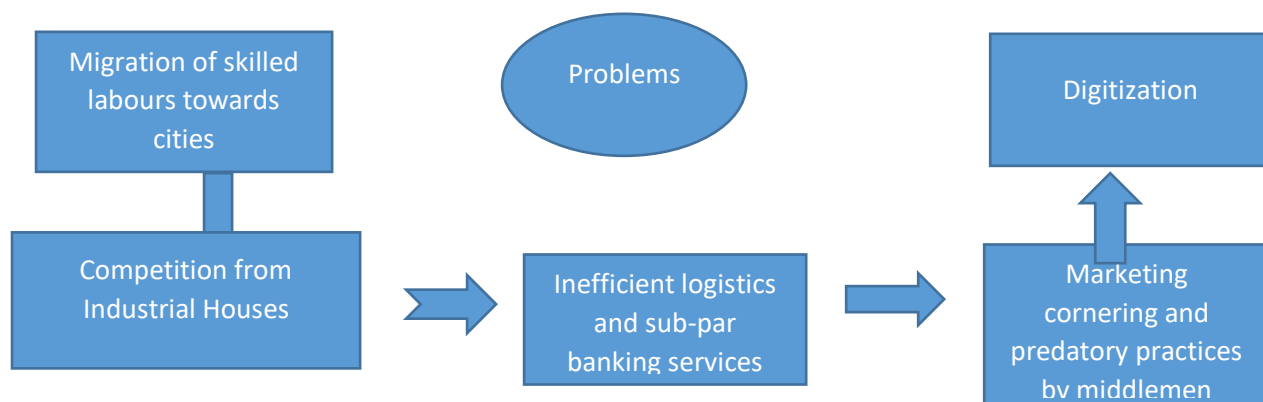
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3. **Third category:** This category covers cottage industries which in urban area provide whole time occupation to the workers and engaged them in works of, e.g. wood and ivory carving, toy making, gold and silver thread making, brass utensil and other materials manufacture, shoe making, carpet weaving etc.

## III. PROBLEMS

Small-scale manufacturing boosts the economy, but it also faces several challenges. Below are a few of the main concerns:

1. **Migration of skilled Labour toward cities:** Many rural cottage industries have seen a major decline in their accessible labour pool since the growth of cities post-industrialization as a result of the brain drain of trained and semi-skilled labourers looking for better possibilities.
2. **Competition from Industrial houses:** Cottage businesses deal with high input costs and significant constraints on their ability to take advantage of economies of scale. Therefore, running their operations on razor-thin margins is a normal practice for many cottage entrepreneurs. It is concerning when a big business establishes itself in the area and starts producing similar products in bulk at a reduced cost.



3. **Inefficient Logistics and sub-par Banking services:** Low setup expenses are typically associated with living in the country, but in practice, this has drawbacks. Delivering goods to buy houses is a logistical challenge in developing countries because the road network is poorly maintained and patchy. Additionally, small business owners typically lack the simple access to affordable loans that their larger competitors frequently possess.
4. **Market cornering and Predatory Practices by Middlemen:** Establishing a firm without a consistent buyer is unfeasible for a small producer that has lived in a village for the majority of their life. Eventually, a buyer willing to buy your complete manufacturing capacity might be found after several weeks of searching. However, there's a catch: the buyer will only pay what it costs to operate your firm. Sadly, several small businesses deal with this situation on a daily basis. Given that there are several producers and manufacturers but few buyers, their fragmented character is detrimental to them.
5. **Digitization:** The majority of small-scale cottage businesses are not tech-driven, thus they were unable to take advantage of the opportunities presented by the web and e-commerce industries. Furthermore, many small businesses were compelled to close their doors due to declining revenues as a result of customer buying patterns that favour online purchases. But in order to sell online and increase business efficiency, modern cottage entrepreneurs have been upgrading their skills and methods in recent years. Here are was the cottage industries might navigate these challenges:
  1. **Niche Markets:** Small-scale industries can often cater to niche markets that larger industries might overlook. By offering specialized or unique products/services, they can carve out their own space in the market.
  2. **Flexibility and Innovation:** Being smaller allows for quicker adaptation to changing market demands. They can innovate, pivot, and adjust their strategies faster than larger corporations.
  3. **Local Focus:** They can leverage local connections and community support. Sometimes, being closer to customers can be an advantage in terms of personalized service and building relationships.
  4. **Technology Adoption:** While digitization might initially seem daunting, adopting relevant technologies can streamline operations and make them more competitive.
  5. **Collaboration and Networking:** Small-scale industries can collaborate with others, forming partnerships or networks that amplify their strengths and resources.
  6. **Government Support:** Many governments offer support and incentives to small-scale industries through subsidies, grants, and policies to help them compete and grow.
  7. **Skill Enhancement:** Focusing on skill development and training for employees can enhance productivity and efficiency, making them more competitive.

While these challenges are significant, they don't necessarily spell doom. The ability to adapt, innovate, and find unique strengths can help small-scale industries not just survive but also thrive in a changing landscape.



#### IV. LITERATURE REVIEW

Small scale industries are studied extensively by both central and state governments due to their employment potential and enhanced national income. The issues facing small-scale businesses are extensively discussed in literature, with topics ranging from human management to production, marketing, and financial management. The fact that these studies offer specific findings on every facet of these businesses guarantees that the field of research on small-scale industrial management issues will continue to be expansive.

The review of views of different eminent authorities regarding cottage industries and economic development definitely proved helpful to set the line of action of the present study.

In the opinion of I.C. Dhingra the ultimate welfare of India lies in cottage industries, which are organized by individuals with private resources, with minimal capital invested, and are pursued as part-time or full-time occupations, without outside help.

Dr. R K Agarwal emphasized the importance of developing cottage industries to address rural poverty and employment issues. These industries, run with family support, utilize labour intensive techniques and require less capital. India's abundant labour force but lack of capital makes these industries suitable for this structure. The growth of cottage industries can utilize local skills, talent, and resources, making them crucial for the development of rural areas in India.

James J Berna's study on industrial entrepreneurship in Madras state identified three main issues affecting SSI units: raw material issues, working capital issues, and labour issues. However, he did not address financial and marketing issues, as these were beyond his research scope.

The Japanese delegation's 1959 report on small scale businesses emphasised the difficulties encountered by India's cottage and small-scale enterprises, blaming their lack of market awareness and isolation from the larger economy for their poor performance.

George Rosan (1955) studied the expansion of SSI and government-owned industries, their impact on national income, and the substitution of labour-intensive technologies.

Staley and Morse (1956) highlighted the gap in the development of small industries and the need for technical assistance, guidance, and modernisation promotion in these sectors.

George Rosen (1975) explored the potential expansion of small scale industries (SSI) and government-owned industries, examining their impact on national income, labour-intensive technologies, and social requirements for small scale industry expansion. Vasant Desai (1979, 1985, and 1988) examined the difficulties encountered by small industries, which make up roughly 45% of India's overall industrial output. He proposed coordinated measures combining the government, financial institutions, and small business owners to address these problems.

Bala, Shasi's 1980 study on small scale industries governance policy and implementation in Punjab focused on trial and error in determining scale methods and focusing on selling products of SSI. The study revealed that small industries did not make organized sales and selection of sales areas was not based on market research or information.

Lakshmanan T R's 1966 study on "Cottage and Small Industries in Mysore" explores the issues and problems faced by cottage and small industries. The study discusses the definition, role, and case studies, highlighting the contribution of Small Scale Industries (SSI) to economic development, addressing issues like equipment obsolescence, capacity utilization, productivity, raw material supply, marketing, and finance problems.

The state industrial sector's role in fostering growth, social justice, self-reliance, and basic minimum needs through the development of small-scale companies was highlighted in the industrial policy statement released by the Kotharis Industrial Director in February 1973.

Raghunathan's 1988 study highlights the slow growth of small scale industries, highlighting that progress has not been as rapid as expected, particularly in areas like the rapid development of ancillary industries, across different states and territories.



Patnaik's (1989) study aimed to determine the growth rate of the Small Scale Industries (SSI) sector in the country and address the challenges faced by small entrepreneurs. He analysed growth patterns before and after DIC programmes, using four variables: number of units, production, exports, employment generation, and investment. Rao K Vepa's 1988 study on "Modern Small Industry in India Problems and Prospects" identifies challenges faced by industrial development programs in Japan, Asia, Middle East Africa, and Latin America, comparing favourable and unfavourable environmental factors.

The Indian Government's Industrial policy (1977) prioritized small industries development, establishing district industries centers (DIC) in all districts to expedite their growth. The policy aimed to produce everything produced by small and cottage industries in those sectors.

After India gained independence in 1947, the government recognized the significance of small scale industries as a primary source of livelihood for many people, leading to a 1947 conference recognizing their importance.

Sahdeo Pande (1990) highlighted the challenges faced by Small Scale Industries (SSI) units, including unhealthy competition, poor financial support, and lack of cheap power. He emphasized the need for urgent action and new industrial policies to save these industries from decay. Other issues include unresponsive production parties, local taxes, and political interference. He suggests that SSI's need a comprehensive change in the policy of Government to make them more efficient and productive.

Balu's 1991 study on small industry development found that most consumers buy everyday products from small scale units, which attracts savings and leads to productive channels in rural and semi-urban areas. He also noted that sickness spreads faster in the small scale industry than in larger and medium-sized sectors.

T A Bhavani's 1991 study on factor substitution and demand in Indian modern small enterprises suggests that labour can be substituted for capital and materials in the sector. The complex relationship between capital and labour suggests that a small increase in capital costs can negatively impact labour demand, reducing its share in output

C E Karunakaran's 1991 paper on small industry scenes in Tamil Nadu found that registered units are increasing rapidly, but many do not exist due to various reasons. If all do exist, they could employ 7 lakhs people annually. However, credit delivery and revenue administration have not been effective, and financial assistance has had a negative impact.

Small scale industry refers to manufacturing activities in small establishments, with definitions varying across countries. It is typically defined based on investment in plant and machinery or labour and power. Today, almost all countries consider investment in plant and machinery as the primary criterion for defining small industry.

Vijay Shukla's 1993 study on the development of small scale industries in India highlights their importance for the Indian economy. However, these industries face numerous difficulties and inadequacies, such as outdated methods and inferior production techniques, which hinder their efficiency and hinder their growth and expansion. These Industries face other difficulties such as inadequate transport, shortage of efficient management, lack of research and development facilities.

Nagaiya's 1998 study examined the role of infrastructure in industrialization in disadvantaged regions. He found that less developed regions used capital and labour more economically than developed ones, as indicated by productivity indices. Nagaiya also examined the effectiveness of industrial estate and area programs from the perspective of sponsoring organizations and beneficiaries, highlighting the importance of infrastructure in promoting industrialization.

K R Pillai, the executive director of SIDBI, analysed the role of the SSI sector in the evolving economic setting and identified challenges it may face, including inadequate credit needs and non-adherence to small-scale management principles.

According to the report submitted by RBI, the TANSTIA, the apex organization of small scale industries in Tamil Nadu, has highlighted the mixed feelings of threat and opportunity for the SSI sector due to the liberalized policy. The organization emphasizes the importance of institutional finance for the growth of SSI in the changing economic scenario, urging banks to adapt to the R Mohan Kumar's 1996 study highlights the success of the SSI



sector in industrial development, highlighting the importance of positive human resource trends. He suggests reducing emphasis on work-related values and addressing poor attitudes towards work values, particularly focusing on workers and supervisors changing scenario.

Prasad C S (1997) discusses India's policy for Small Scale Industries (SSIs) since independence, including institutional support, integration, protection, fiscal incentives, concessions, and credit support. He discusses policy initiatives since 1991 to prevent competitive disadvantages in the economy's opening to multinational corporations and globalization. The study also covers the Abid-Hussain Committee's recommended economic reforms for SSIs. The importance of industrial policy in raising living standards, decreasing income inequality, and quickening economic growth is highlighted by Patnaik's (1998) study. Policies for small industries can be classified as either protective, promoting, or passive. Protective policies shield minor sectors that are already in place from contemporary competition, while passive policies concentrate on inactive industries. A lack of information, poor leadership, or disinterest can all lead to inactive policies. Afterwards there is the advertising strategy. Improving the productive efficiency of the current small industry is the focus in order to promote the creation and expansion of contemporary small manufacturing units in appropriate production types.

In his book *Emerging Trends in Entrepreneurship Development*, Nagendra P Singh highlights the significance of SSI unit development in India, challenging myths and emphasizing the need for its development.

Ajay Lakhanpal's book "Entrepreneurial development- An institutional Approach" explores financial facilities, assistance schemes, commercial banks, and government boards in industrial development. He emphasizes the need for training entrepreneurs for promoting small scale units (SSIs), but does not address managerial skills or marketing problems in small-scale industries.

P D Malgavkar's 1991 study on reservation, segregation, sick units, and the structure of small industries emphasized the need for encouragement and integration into the overall industrial development policy, urging for a fresh approach to revitalize and improve industrial development.

The new Small Enterprise Policy (NSEP), which intends to import growth, redefine Small Scale Industries (SSI), provide a separate package for boosting the sector, and introduce equal involvement, is examined in J C Sandesare's 1991 study.

C E Karnuakaran's 1991 paper on small industry in Tamil Nadu found that registered units with the DIC are increasing, while many unregistered units exist. He also noted that if all units exist, they could employ 7 lakh people annually. However, credit delivery through banks and revenue administration have not been effective.

Dr. C M Choudhary's 1992 study highlights the challenges faced by cottage and small scale sectors due to lack of research and managerial efficiency. Small firms with fewer than 5 employees consistently create new jobs, displaying the highest job growth during downturns and economic expansion.

Major issues that regional exporters confront are highlighted in Singh and Munshi's study. These issues include transportation, currency concerns, government regulations, bank services, and growing competition. Small exporters are primarily driven to investigate foreign markets by advancements in technology.

Dr. C S Prasad (1994) highlighted the constraints faced by the Small Scale Industries (SSI) sector due to its small size, primarily relating to technological, managerial, financial, and marketing aspects. He suggested bridging these gaps through inputs like credit, raw materials, marketing, skilled labour, infrastructure, and fostering new relationships between large and small scale industries.

Small and medium-sized businesses under \$1 million spend twice as much on Research and Development compared to larger companies, highlighting its significant role in small business success.

W R Parthasarathy (1998), Vice President of Ambattur Industrial Estate Manufacturers' Association, identifies India's challenges as heavy paper work, poor credit flow, high interest rates, outdated labour policies, poor infrastructure, and high taxes, which hinder small scale industries from performing efficiently.

Vikaram Chadha's 1999 study on financing small industries in India highlights challenges such as credit shortage, capacity underutilization, market in-competitive, and inadequate industrial facilities like power.



Gopal Ratnam's study highlights the success of small businesses in the US through franchising, where thousands of small business owners share a successful business recipe, spreading risk and testing individual initiative.

Hilla M Wadia's study examines the role of all India term lending institutions in industrial development in backward areas. The study focuses on cost and time overruns since 1973, specifically examining the impact of institutional finance on industrial units in these areas. The study analyses 50 industrial units, 25 in both backward and developed areas, using state, industry, sector, and purpose-wise analysis and operation performance.

E A Parameshwara Gupta (1997) highlighted the need for attention in the SSI sector, highlighting its potential for fostering entrepreneurial and managerial development. Issues include long gestation periods, accounting issues, technology restrictions, trade union opposition, weak infrastructure, lack of industrial experience, and long realization periods.

## V. CONCLUSION

The emphasis on cottage industries embodies a grassroots approach to economic development, fostering innovation, skill enhancement, and inclusive growth. These industries not only preserve traditional crafts and techniques but also pave the way for economic sustainability and rural empowerment. By nurturing these small-scale endeavours, Dhingra envisages a robust and diversified economic landscape, where each individual's contribution fuels the nation's progress.

Overall, these studies and analyses collectively illustrate the multifaceted challenges faced by regional exporters, Small Scale Industries, and small businesses in India. The highlighted issues encompass a broad spectrum, from regulatory and financial hurdles to technological advancements and infrastructural deficiencies, underscoring the complex landscape these entities navigate in their pursuit of growth and sustainability.

In the realm of policies governing small industries, a spectrum emerges, ranging from protective measures safeguarding existing sectors against contemporary competition to passive approaches addressing inactive industries. The classification delineates the varied strategies employed, where protective policies shield established sectors, while passive ones centre on inactive industries, often influenced by factors like insufficient information, inadequate leadership, or lack of interest.

Subsequently, attention shifts to the pivotal aspect of advertising strategy. This strategy serves as a catalyst for enhancing the productive efficiency of existing small industries. The primary goal is to foster the creation and expansion of modern small manufacturing units, strategically aligning with appropriate production types.

The evolution and implementation of policies for small industries stand at a crossroads, requiring a delicate balance between safeguarding established sectors and invigorating latent potentials. It underscores the importance of proactive measures aimed at fortifying the productivity of existing entities while concurrently fostering an environment conducive to the emergence and growth of contemporary small-scale ventures.

Ultimately, these policy paradigms highlight the dynamic interplay between preservation and innovation, underscoring the need for adaptable strategies that not only shield but also stimulate the evolution and expansion of small industries within a constantly evolving economic landscape.

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