Chapter VII

SUMMARY OF CONCLUSIONS AND SUGGESTIONS

The analysis in the previous chapters has led to the following conclusions. A few suggestions have been made based on the conclusions.

1.1 Small scale industries play strategic role in restructuring and in transforming an economy with higher labour capital ratio with shorter gestation period. They stimulate growth of entrepreneurship and promote diffused pattern of ownership and location. SSIs have the spread effect on domestic market since they use more of domestic inputs and indigenous raw materials and domestic technology.

1.2 SSIs in India are defined in terms of scale of investment in plant and machinery unlike in countries like China, Germany, Indonesia, Iran, Turkey, etc., where they go by number of employees in identifying SSIs. The sector covers a wide range of products with two clearly identifiable segments viz., modern small scale industries including tiny units and powerlooms and traditional industries like khadi and village industries, handlooms, handicrafts, sericulture and coir industry.

1.3 Indian SSIs account for 95% of country’s industrial units, 40% of industrial output, 80% of employment in industrial sector, 40% of total exports and 7% of domestic product. The 2004 census of SSIs provides some useful data. SSI sector comprises of around 10.52 million units. The sector contributed a total employment of 2.37, the
export contribution of the sector is Rs. 14199 crore and the number of 
exporting unit of 50606.

1.4 SSI sector has some areas of concern. The sector is receiving 
much less policy interest and industry associations have become 
much less articulate. There is a serious slowdown in the proactive 
promotion activities of the government and the development of finance 
institutions. The following factors have made the SSI sector 
vulnerable.

- Low capital base
- Difficulties in accessing technology
- Credit constraints
- Low access to business services
- Constraints of quality of human resources
- Low awareness and
- Low lobbying capacity.

The SSI sector has to confront some exogenous factors 
influencing its performance.

1.5 Exogenous factors have severely affected the exports of SSIs 
from India. They relate to (i) advancement in generic technology of 
computers and telecommunications, (ii) rise in electronic commerce, 
(iii) globalization and liberalization policies including unilateral 
liberalization, (iv) multilateral trading rules under WTO, (v) 
Bilateral/Regional Agreements, (vi) Mergers and acquisitions, (vii) 
Labour and environmental standards/lobbies, (viii) Liberalization of 
services/infrastructure, (ix) Sourcing out of activities to outside firms,
and (x) Growth in world demand for a variety of services. These factors impacting on SSIs are exposing them to a world of intense competition, risks and uncertainties, technological progress, mandatory and voluntary standards through creating a whole range of opportunities in the process of those enterprises which are less handicapped and are more adaptable.

1.6 The viability of SSIs is becoming uncertain. The sector is hurtling down the path of sickness. The census 2001 revealed that out of 23.6 lakh registered SSI units 8.7 lakh or close to 40% have closed down permanently and another 15% have gone sick. Job losses due to sickness varied from 1 crore to 1.90 crore. Lack of demand and lack of finance have largely caused the sickness in SSI sector. Lack of demand is largely due to imports, liberalization and dereservation. SSIs cannot cope with big business, globalization and liberalization. Under the high protectionist wall the SSIs are now becoming vulnerable given the fast changing policy scenario towards liberalization and globalization.

1.7 Reviews of contemporary literature have revealed the inherent strength of SSI sector in providing employment opportunities in a labour abundant country like India and in removing regional backwardness in the country. However various writers have focused on the challenges facing the SSIs in the wake of post WTO dispensation viz., liberalization, dereservation, globalization and the intense competition from large units resulting in high incidence of sickness in the SSI sector. Writers have suggested for liberating the
SSI sector from government and for providing adequate finance, technology, subcontracting on equitable terms. These would obviate the need for subsidies, tax concessions, etc. Other writers have stressed the need for inducting marketing technology for infrastructure for promoting this priority sector in the country. Development of new skills and research and development in SSI sector have been suggested by others. A few authors on SSIs have mentioned the need for adequate support services, reduction of transport costs, simplication of procedures, while advancing loans by financial institutions, etc. An expert in the area of SSIs has advocated for common brand name for SSI products, a common network of distribution agencies, a standard system of discounts for retailers / distributors and a common pool of funds for designing and development of products. There is need for streamlining the purchase and price preferences for SSI products by the government agencies. An author on SSIs has advocated for complementarity between small and large industrial sector.

2.1 The analysis of the socio-economic profile of the study units and the study area has provided a good backdrop in analyzing the data collected on the functioning and performance of SSI study units.

The predominance of ‘sole proprietary’ units in the study area is a significant finding as 75% of the units are organized on this basis. A lesser number of units (10.6%) are organized as partnership firms, while a still smaller number (7.5%) are joint family units and a very small number (6.7%) are organized as private limited companies. The
organizational structure indicates a weak capital base of the SSI units as majority of them are proprietary units with limited financial resources.

2.2 The average age of the SSI entrepreneurs covered by the study varied between 33.80 years to a maximum of 48.60 years. The overall average age of the entrepreneurs was 40.82 years. The SSI entrepreneurs belong to economically active age groups.

Educational status of the respondent SSI entrepreneurs indicates that majority of them had PUC level education (38.3%) followed by degrees holders (32.5%), SSLC level education (16.7%), P.G. degree holders (6.67%) and diploma holders (5.8%). The educational status of the SSI entrepreneurs can be considered as largely satisfactory.

2.3 Marital status of the entrepreneurs indicates that maximum number of them (94.2%) were married while small number of them (5.8%) were unmarried. SSIs are being handled by entrepreneurs who are well settled with married life, thus ensuring continuity in the organizational management.

2.4 The study has revealed high percentage of male entrepreneurs (86.7%) in the study units. However it is encouraging to find that women entrepreneurs has its presence in the SSI units covered by the study as 13.3% of the total respondents are women.

2.5 Professional background of the family of the SSI entrepreneurs indicates high concentration of agricultural background of 75% of the respondents. A small number of 13 SSI entrepreneurs
(10.8%) belonged to industrial profession of their families. A still smaller number of 9 entrepreneurs (7.5%) belonged to families involved in services. Professional background has advantages for SSI entrepreneurs if they hail from industrial services families.

2.6 Religious affiliation indicates high representation of Hindus (75%) followed by Christians (7.5%) and Muslims (6.7%) among the SSI entrepreneurs. General demograph trends are largely reflected in this pattern.

2.7 The professional distribution of population in Hubli-Dharwad indicates predominance of those in employment in different areas followed by miscellaneous workers, entrepreneurs those in trade and commerce and agriculturists.

Unemployed persons constituted the maximum number in the total population of the twin city.

2.8 The twin city has large number of educational institutions at various levels i.e. primary and secondary schools, PU colleges and polytechnics, degree colleges, professional colleges and universities.

2.9 The twin city of Hubli-Dharwad has large number of business and commercial establishments. Industrial development of the twin city has been growing fast in the post independence period. A few large and medium industries have come up in and around Hubli-Dharwad city.

Hubli-Dharwad city has attracted large number of small scale industries. There are 2774 SSI units in Dharwad and 4933 SSI units in Hubli city. There are 7 Industrial Estates/Areas in Hubli-Dharwad
twin city with large number of SSI units in various areas like engineering, chemicals, agro based, food based, wood based, plastics, rubber and other units.

Large number of bank branches of commercial and cooperative banks are providing services to various sections of the society and business and commercial establishments.

2.10 The twin city has a large network of transport and communication system. The city is connected to various cities in different neighbouring states by broad-gauge railway lines, national, state and district highways. A large fleet of transport vehicles is providing services in the city. A network of post offices, telegraph offices, telephone exchanges constitutes the communication system.

2.11 Hubli-Dharwad twin city is provided with water supply from river and tanks near the city. Electricity supply from KEB from different generating sources like thermal, hydroelectricity and nuclear power plants.

3.1 Industrial policy in India has undergone various changes since the first industrial policy of 1948. The industrial policy of 1956 constituted a more comprehensive policy since the introduction of development planning in India. The basic approach of this policy remained valid despite successive changes in 1970, 1973, 1977 and 1980. The primary concern of the policy was to achieve rapid industrialization of the country. Removal of regional backwardness formed an important objective of the successive policies and a scheme of financial and fiscal incentives was introduced.
3.2 The 1980 industrial policy aimed at establishing more dynamic industrial economy. Steps taken in this direction included streamlining licensing procedure, allowing growth beyond licenced capacity, raising investment limits in SSIs, etc.

3.3 Since 1988 government has initiated the process of delicensing of industries except 26 categories. The results has been a decline in the concentration of industrial activities near the metropolitan cities.

The policies towards small scale industries has been to promote the sector by providing all types of assistance viz., providing capital, training entrepreneurial skill, creating demand and providing of market opportunities.

3.4 The 1991 policy for SSI sector aimed at vitalizing it by removing regulatory procedures, decentralization and delicensing, promoting voluntary organizations for development of khadi and village industries and providing institutional support infrastructure investment, etc.

The industrial policy 1991 stipulated 24% equity participation in SSIs by other industries (including foreign companies) hike in investment limit for tiny units to Rs. 5 lakhs, single window loans to cover projects up to Rs. 20 lakhs, setting up of subcontracting exchanges, easy access to institutional finance, marketing of mass consumption goods by NSIC under common brand name, setting up of Technology Cell and Export Development Centre, etc.
3.5 The Expert Committee on small enterprises (1997) Abid Hussain Committeee stressed the following

- Cluster development
- Technology support
- Infrastructure development

3.6 Karnataka state has been guided by State Industrial Policy since 1982-83. Successive industrial policies were announced in 1988, 1990, 1993, 2001 and 2006. The New Industrial Policy 2006-2011 covering a period of 5 years has been in force.

The new industrial policy 2006-11 has the objective of helping the facilitation of achieving GSDP growth of over 9% which in turn call for an industrial sector growth of over 12%. The policy stipulated to raise share of the industries GSDP from 16.70% to 20%, to increase state’s exports in national exports from 15% to 20% and to create additional employment for 10 lakh persons in the manufacturing and service sector and to reduce regional imbalance.

3.7 The state has classified various taluks into 3 zones for focused attention. It aims at developing industrial areas through KIADB/KSSIDC. A comprehensive power policy is to be formulated for meeting the increasing power needs of industries. The states aims at establishing special economic zones through KIADB. Industrial Corridor/Cluster Development would be encouraged in potential areas.

3.8 Focused attention shall be given for sub sectors/area viz., Aerospace, Engineering, Automobile, Machine Tools, Steel, Cement,
3.9 The policy is oriented to promote human resources development suitable for manufacturing industries and service units. The policy aims at providing lands and financial assistance for providing basic infrastructure facilities.

3.10 Karnataka council for technology upgradation would be strengthened for modernization and improving quality and cut costs. Other programmers for SSI sector include entrepreneurial development (EPD), improvement of labour laws and revival of sick units and designating DICs as nodal agency at the district level for implementation of self employment programmes and SHGs. The government would extend price and purchase preference for SSI units further during the policy period.

4.1 The SSIs covered by the study comprise of both labour intensive as well as capital intensive units. Hence the magnitude of capital investment vary from one unit to another. The average capital investment in the 11 SSI units covered by the study was Rs. 1054802. The investment of capital in plant and machinery in the unit (No. 10) manufacturing wearing apparel was the minimum at Rs. 100000. The unit is labour intensive and obviously involved less investment of capital. On the contrary unit number 3 had the maximum amount of capital investment of Rs. 6115623 in plant and machinery. The unit is involved in manufacturing structural metal products which is capital
intensive. Thus the level of investment of capital in plant and machinery is obviously determined by the capital vs. labour intensity.

4.2 The plant and machinery installed by the SSI units are either purchased outright by the units or they are obtained on lease basis. Majority of SSI units (68.3%) have made outright purchase of plant and machinery while a lesser number of the SSI units (31.7%) had obtained plant and machinery on leases basis. The investment magnitude being moderate outright purchasing the plant and machinery has been feasible for majority of units.

4.3 Banks and KSFC have been the main source of finances for the SSI study units. Banks constituted the major source of finance for maximum of 109 study units (90.8%), while as small number of SSI study units (9.2%) obtained finance from KSFC. Obviously the accessibility of banks for SSI study units is more easy compared to KSFC. Hence the dependence on banks for finance by the units is obvious.

4.4 The SSI units have faced various difficulties in obtaining loans. The study has revealed that maximum of 109 SSI units (90.8%) faced the problem of high interest on loan. Inadequacy of the loan amount was expressed by 6 SSI units (5%) and 2 SSI units (1.7%) indicated rigid procedures of banks. Other problems were expressed by 3 SSI units (2.5%). The responses reveal that major problem of loan finances was the high interest and hence the government and the RBI should try to mitigate the problem through downward revision of interest rates on loans to this priority sector.
4.5 Loan subsidy is available to only 64 SSI units (53.3%) while the rest of the 56 SSI units (46.7%) are not given the benefit. Subsidy benefits given by the government should be uniformly extended to all the SSI units.

4.6 There is no uniformity regarding the rate of subsidy on bank loan to SSIs. This needs to be looked into and the rates should be rationalized. Majority of 46 SSI units (71.9%) referred to 5-9% of subsidy while 16 SSI units indicates 10-14% of subsidy. A small number of 2 SSI units received more than 20% of subsidy. The respondent SSI units are largely unaware of the main source of subsidy i.e. government.

4.7 Awareness about the subsidy scheme and incentives is limited to some SSI units while others are not aware of the same. Hence there is need for enlightening the SSI units about the source and extent of incentives and subsidy for SSI sector given by the government. Further full utilization of incentives and subsidies again is limited to only 64 SSI units (53.3%) while 56 SSI units (46.7%) have not made full use of incentives and subsidies. Proper information and knowledge about these schemes is to be imparted to the SSI units so that the government promotional schemes are properly utilized for the purpose for which they are devised.

4.8 Adequate working capital is essential for meeting the claims of creditors. Inadequate working capital may lead to low liquidity, low profitability, higher interest charges and undercapitalization of production capacity. Working capital needs of SSI units vary from one
unit to another and from one type of unit to another type. The study has revealed that 95 SSI units (79.2%) have found the available working capital as adequate. A small number of 25 SSU units (20.8%) found the working capital inadequate. It is necessary to ensure adequate working capital for the SSI study units are own funds, banks, finance companies and others. Majority of 80 SSI units (66.7%) used their own funds for meeting their working capital needs. Banks are the major source of working capital for 26 SSI units (21.7%). A small number of 10 SSI units (8.3%) have been borrowing from private finance companies for their working capital needs. A very small number of 4 SSI units (3.3%) have obtained working capital from other sources. The findings of the survey leads to the conclusion that inadequate provision of working capital at concessional rates by banks leads the SSI units to borrow from high cost sources leading to increased loan liabilities. Inadequacy of working capital may cause sickness among the SSI units.

4.9 SSI units faced some major problems in obtaining their working capital such problems included high interest rates, stringent credit conditions, inconvenient bank policies, inconvenient repayment, etc. High interest rates as a major problem has been mentioned by 105 SSI units (87.5%). Inconvenient repayment conditions by banks has been cited by 9 SSI units (7.5%), inconvenient policies of banks has been mentioned by 2 SSI units (1.7%) and stringent credit rules are indicated by 1 SSI unit (0.8%). There is need for a more liberal
approach by banking institutions towards meeting the working capital needs of the SSI units.

4.10 Inadequacy of working capital has been mentioned by only a small number of 19 SSI units (15.8%) whereas large majority of 101 SSI units (84.2%) have not faced inadequacy of working capital. However working capital problem seems to be persisting in one form or the other though all the SSI units may not be facing the problems. There is therefore need for necessary steps to be taken by the government in ensuring adequate working capital at economic cost and without any hassles for SSI units.

4.11 Production involves use of raw materials as the main input. Raw material by the SSI units covered by the study are obtained from there main sources – local, outside the city and outside the state. Majority of respondents (44.2%) obtained raw materials from local sources. A good number of other SSI units (33.3%) acquired their materials from outside the city, while 27 unit (22.5%) obtained their raw materials from outside the state.

4.12 The study has revealed that large majority of 87.5% of the SSI units affirmed that they could get adequate raw materials while a small number of units (12.5%) faced shortage of raw materials. Supply of adequate raw materials is imperative for the sustained growth of SSIs. The government agencies have been helping the SSI units in this direction. However the government help has not fully mitigated the problem of shortage of raw materials. The study has revealed that 7 SSI units facing shortage of raw materials have sought help from the
government in this direction, while the other units have not sought government help in this direction.

4.13 The assistance of KSFC was taken by 5 SSI units in obtaining raw materials, while other 2 SSI units got help from other sources. Majority of 75 SSI units (62.5%) expressed the view that government help in obtaining raw materials was adequate while 45 SSI units found the government help as inadequate.

4.14 The average annual requirement of raw materials ranged between a minimum of 1-10 tonnes to a maximum of 31 tonnes and more. Majority of 58 SSI units (48.3%) required 11-20 tonnes of raw materials, while a minimum of 2 SSI units (1.7%) needed 21-30 tonnes. A lesser number of 16 SSI units needed maximum of more than 31 tonnes of raw materials. A minimum of 1-10 tonnes of raw materials was needed per year by large number of 44 SSI units (36.7%). Further it is found that the actual quantity of raw materials obtained ranged between a minimum of 0.5-1 lakh tonnes to a maximum of 2-2.5 lakh tones, while a minimum of 2 SSI units obtained maximum of 2-2.5 lakh tonnes of raw materials.

4.15 Raw materials shortage leads to loss of production. The annual loss of production due to shortage of raw materials ranged between a minimum of 1-10% to a maximum of 31-40%. Maximum number of 53 SSI units (44.2%) suffered a loss of 1-10% of production loss while a minimum number of 10 SSI units (8.3%) suffered a production loss of 21-30%. Further 14 SSI units (11.7%) suffered maximum production loss of 31-40% dye to shortage of raw materials.
4.16 Large majority of 106 SSI study units (88.3%) operate continuously all the year round while 14 SSI study units (11.7%) worked seasonally. All the SSI units (100%) involved in manufacturing food products, nonmetallic mineral products, wood products, chemical products, transport services, basic iron and steel, wearing apparel and plastic products worked all the year round. SSI units relating to services and some units manufacturing structural metal products are seasonal.

4.17 Some of the SSI units are in the expansion phase with increasing volume of production, while a few units are experiencing decline in their production volume. A good number of other units are stable at a constant volume of production. The study has revealed that maximum number of 77 SSI study units (64.2%) have been in the process of increasing volume of production. A good number of 34 SSI study units (28.3%) have a constant volume of production. However a small number of 9 SSI study units (7.5%) have been experiencing decreasing trend of production volume. The 9 SSI units facing decreasing volume of production have attributed it to power shortage and decline in demand. Power shortage has caused decrease in production volume according to 7 SSI units (77.78%), while 2 SSI units (22.22%) referred to decline in demand for the decline in production. Power shortage has been a chronic problem and industrial units are facing this problem throughout Karnataka state.

4.18 Unutilized production capacity leads to shrinkage of earnings of the production units and the unit may become sick. Idle or
unutilized capacity of any unit is caused by shortage of input resources – raw materials, power and other supplies. Unutilized capacity may also be caused by labour problems, recession or faulty fiscal and monetary policies of the state. The field survey has revealed that the average utilization of production capacity of the SSI units was 46.53% during the past five years. Industry wise maximum utilization of 54.20% of production capacity was achieved by units relating to manufacturing of structural metal products, tanks, reservoirs and steam generators. Utilization of production capacity of the study SSI units is to be considered as unsatisfactory as more than 50% of capacity has remained unutilized during the last 5 years. There is need for making concerted efforts to remove the obstacles in the way of full utilization of production by the SSI units.

4.19 The SSI units covered by the study have employed different type of labour – skilled, unskilled, technical and non-technical. The average number of skilled workers in the different product groups of SSIs was 4.99. The number of skilled workers varied from a minimum of 1 skilled worker in manufacturing unit of non-metallic mineral products to a maximum of 15-50 skilled workers in units manufacturing structural metal products, tanks, reservoirs, etc. The average number of unskilled workers in the SSI units was 6.94. The average number of technical workers in the SSI study units was 2.70. The average number of non-technical workers in SSI study units was 2.04.
4.20 Methods of recruitment of workers in SSI study units included recruitment through advertisement, through personal interviews and through institutional arrangements like ITIs. Majority of 90 SSI units (75%) of the SSIs recruited their workers through personal interviews, while the rest of the 30 SSI units (25%) recruited their workers through advertisements.

4.21 SSI units covered by the study have been providing training to their employees as indicated by majority of 78 SSI units (65%). A lesser number of 42 SSI units have not been providing training to employees. This aspect reflects upon the negligence of the SSI units about the importance of training which is an important component of human resources development in industrial sector. SSI units must be properly enlightened by the industrial associations and the government agencies about this important aspect of management.

4.22 Incentives to employees have motivational impact. They enhance the morale of the employees and raise their productivity and also the productivity of the organization. Incentives to employees have been provided by majority of 77 SSI study units (64.2%). However a substantial number of 43 SSI units (35.8%) had not extended any incentive to their employees. This is a lacuna in the management of industrial units.

4.23 The problem of labour turnover has been faced by a large number of SSI units. Labour turnover is generally caused by salary differences, lack of job satisfaction, better incentives in other units, etc. A large majority of 100 SSI study units (83.3%) have faced the
problem of labour turnover. A small number of 20 SSI study units (16.7%) did not face the problem of labour turnover. Further it is found from the field survey that 86 SSI units faced the labour turnover due to better salary in other units, 7 SSI units faced the problem due to lack of job satisfaction, 6 SSI units faced the problem of labour turnover due to better incentives elsewhere.

4.24 The incidence of labour strike is almost nil among the workers of the SSI study units. Maximum number of 119 SSI study units (99.2%) did not faced labour strikes. A lone SSI study unit (0.8%) did mention that it faced labour strike. Further large number of 106 SSI units (88.3%) mentioned that their employees were not affiliated to any labour union. However 14 SSI units (11.7%) mentioned that their employees had affiliated to labour union. The responses broadly indicate that there is industrial peace and good industrial relations in the SSI units covered by the study.

5.1 Price is an important determining factor in stimulating the sales, production and turnover of a product. A proper and careful pricing policy is the most important step towards the success of small scale industries. A scientific price policy acts as a catalyst to the development of small scale industries. It helps to regulate production and maintain quality. It helps to set up sales and keep the consumer fully satisfied. The price of a product of a small scale industry projects a bold image of the industry and reflects its quality.

The SSI units covered by the study have been pricing their products on the basis of the following alternative methods.
Based on costs plus profit
Based on competitors prices
Based on agreement with buyers and
Based on demand and supply factors.

SSI units take into consideration while pricing on the basis of costs plus profit.

Variable and Fixed Production Costs and
Variable and Fixed Selling and Administration Costs

Large majority of 94 SSI units (78.3%) priced their products based on costs plus profits. This is a very common method of determining the selling prices of products. A good number of 18 SSI units (15%) followed the method of fixing prices based on competitors price, this method is useful when market is dominated by competition. A lesser number of 6 SSI units (5%) followed the method of pricing based on agreement with buyers. Such pricing policies are followed when individual sellers are confronted with big buyers who account for large share in the sellers’ total sales. This is similar to a situation where ancillary units sell their products to large units. A very small number of 2 SSI units (1.7%) sold their product as per the market determined prices based on supply and demand.

5.2 A scientific pricing policy needs maintaining of proper cost data by the manufacturing units. Majority of 107 respondent SSI units (89.2%) did not maintain proper cost data. Pricing based on inadequate cost data become ad hoc and arbitrary. A very small number of 13 SSI units (10.8%) maintained proper cost data. Units
which maintained proper cost data included those manufacturing of structural metal products, fabricated metal products and wood products, cork, straw and plaiting materials.

5.3 SSI units are faced with some marketing problems. Important problems of marketing relate to increasing competition within the small scale sector and from large units, consumer consciousness about quality of goods, lack of distribution network and inability of SSI units in exploiting export markets. Marketing problem of these units basically arise due to their small size, limited scale of operations and inability to setup retain outlets.

5.4 The buyers of SSI products consist of varied customers and in different locations. Buyers from outside the city were maximum (26) followed by local buyers (24), private industries (23), wholesalers (14), government (13), retailers (11), exporters (8), buyers outside the state (6).

5.5 The practice of credit sales has become imperative in case of many SSI units. Majority of 66 SSI units (55%) sell their products on credit, while large number of 54 SSI units (45%) did not sell on credit. Credit sales as percentage of total sales have ranged between a minimum of 1-4% to maximum of 15-20%. Majority of 43.94% of SSI units had 5-9% of their total sales on credit followed by 37.88% of SSI units with 1-4% of sales on credit, 8 SSI units (12.12%) with credit sales of 15-19% of total sales on credit and 4 SSI units (6.06%) with credit sales of 10-14%.
Credit sales become unavoidable when firms face severe competition for their products. Hence SSI units are faced to extend credit facilities to retain their customers. A substantial number of 49 SSI study units (40.8%) have extended credit facility to face the competition from the rival units. However competitive environment has not forced a majority of 71 SSI study units to sell their products on credit.

5.6 Major competitors to the SSI study units are from the SSI sector itself as majority of 64 units (53.3%) indicated this source of competition. Competition from local units was mentioned by 28 SSI study units (23.3%). Locationally competition to 17 SSI units (14.17%) came from units outside the state, while 5 SSI units (4.2%) faced competition from units outside the city. A small number of 6 SSI study units (5%) faced competition from large units. Competition from large units is a matter of great concern since the large units have the advantage of scale economics and hence their unit costs are lower compared to small scale industries. Further the large units have the advantage of better technology resulting in higher product quality. Hence large units pose both price and quality competition to SSI units. SSI units have to update their production method by incorporating better technology and by improving quality.

5.7 Marketing survey is a vital area where SSI units have to give adequate attention. It is essential to develop dependable marketing data and information base for decision making. Majority of 104 SSI study units (86.7%) have conducted market survey while a small
number of 16 SSI study units (13.3%) have not conducted any market survey for their products. Among those SSI units which have not conducted market survey are units manufacturing metal products, structural metal products, service units, wood products, cork, straw and plaiting materials and a unit manufacturing wearing apparel.

5.8 SSI units face varied type of marketing problems. Among them are the problem of competition, improper distribution, channels and distribution, inadequate transport facilities and lack of storage facilities. Competition from rival firms is the major problem faced by majority of 94 SSI study units (78.3%). Improper distribution has been identified as another marketing problem faced by 12 SSI units (10%). Inadequate transport facilities was a marketing problem faced by 6 SSI study units (5%). Lack of storage facility was faced by 5 SSI study units (4.17%) while lack of proper distribution channel was a marketing problem for 3 SSI study units (2.5%).

5.9 Competition as a marketing problem has been a major area for the SSI units. Competition to SSI units has assumed different forms viz., price competition, quality competition, competition through advertisements and competition through credit sales by rival firms.

Majority of 77 SSI study units (64.2%) mentioned competition from rival units and large units in terms of product quality was faced by them. This important area of quality competition is a challenge which the SSI units have overcome by improving their technology. Price competition was faced by 26 SSI study units (21.7%). Price competition to SSIs arises due to cost differences particularly from
large units who enjoy lower costs due to scale economy. Competition from aggressive advertisements from big units and from the branded products is faced by 8 SSI study units (6.7%). SSI units have a narrow financial base. Hence they cannot afford to incur heavy expenditure on advertisements. Hence competition from this area is a problem for the SSI units. Competition from rival firms through credit sales is experienced by 5 SSI study units (4.2%). SSI units have to develop a holistic approach to meet different type of competition in marketing their products.

5.10 Transportation is an important component of marketing system. The modern industrial system is built upon the fabric of a well developed transport system. The choice of mode of transport depends on factors like cost of transport, risks involved in goods transport, material handling costs, facilities of loading and unloading of goods, availability of mode of transport, etc.

Majority of 51 SSI units (42.50%) used the facility of lorry while 39 SSI units (40.83%) used temps for their transport requirements. Use of railway transport was mentioned by 6 SSI units (5%) and 2 SSI study units (1.67%) used tractors for their transport needs. The study has revealed that large number of 93 SSI units (77.5%) did not have their own transport vehicles. They depended upon hired vehicles for their transport needs. The weak financial base of the SSI units in general comes in the way of having their transport facilities. Transport inadequacy is a major problem in the distribution function of small scale industries. The problem of transport inadequacy has been
expressed by majority of 101 SSI units (84.2%) covered by the study. However a small number of 19 SSI study units (15.8%) found transport facilities adequate. However large majority of 113 SSI study units (94.2%) have mentioned that they have not incurred any loss of sales due to transport difficulties. A small number of 7 SSI units (5.8%) did suffer loss of sales due to transport difficulties.

5.11 Power needs of the SSI units are largely met by the state agencies. Karnataka Electricity Board has been the main source of power supply to majority of 109 SSI units (90.8%). A small number of 11 SSI study units (9.2%) had their own power generators. Sever dependence on KEB for supply has created the problem of irregular supply of power to the SSI units. A substantial number of 51 SSI study units (42.5%) have mentioned that they did not get regular supply of power. However a thin majority of 69 SSI study units (57.5%) indicated that they did get regular supply of power.

Power shortage ranging between 10% to more than 40% was experienced by 51 respondent SSI units. Majority of 27 SSI study units (52.9%) faced 10.20% of power shortage. A lesser number of 20 SSI study units (39.2%) faced power shortage of 10%, while 2 SSI units (3.9%) faced power shortage of 21.40%. Power shortage of more than 40% was felt by another 2 SSI study units.

Shortage of power has resulted in production loss of 10% in case of 76 SSI study units (63.3%). A substantial number of 35 SSI study units (29.2%) faced production loss of 20% while 9 SSI study units (7.5%) faced loss of production to a tune of more than 20% SSI
 units manufacturing wood products, cork, etc. experienced production loss of 10% due to shortage of power. Production loss of 10% was experienced by units producing fabricated metal products, structural metal products and food products. Manufacturers of non-metallic mineral products, service units and transport services experienced 20% of production loss due to power shortage. Manufacturers of chemical products, wearing apparel, structural metal products and basic iron and steel experienced production loss of more than 20% due to power shortage.

6.1 Future prospects for SSI units have been viewed by respondent units differently as revealed through personal interviews during the field survey. Maximum number of 109 SSI study units (90.8%) have expressed the view that the future prospects for the SSI units are encouraging. A small number of 11 SSI study units (9.2%) have mentioned that the future prospects for the small scale industries are very encouraging. Productwise SSI units manufacturing food products, non-metallic mineral products, chemical products, transport services and those manufacturing basic iron and steel have maintained that future prospects for SSI sector are encouraging. Other units involved in manufacturing of fabricated metal products, structural metal products, service units, wood products, etc., have also found the future prospects as encouraging. A few of the units in the above categories have maintained that the future prospects are very encouraging.
6.2 Government policies towards the small scale industries have been found favourable for the future growth of these SSI units as mentioned by a good number of 16 respondent units constituting 13.3 percent. Products groups holding this opinion relate to fabricated metal products (7), food products (2), structural metal products (1), wood products, cork, straw and plaiting materials (2), basic iron and steel (2) and wearing apparel (2).

6.3 The field survey has revealed that incentive schemes for promotion and development of small scale sector have largely been responsible for the growth of small scale sector units according to maximum of 74 respondent SSI units (61.7%). Monetary and fiscal incentives are provided to SSI units by the government. They include loan and interest subsidy, tax concessions and exemptions under income tax, sales tax, excise and customs duties. Infrastructural facilities are provided through establishment of industrial estates, industrial areas, growth centres, distribution outlets, technology assistance, etc. Incentive schemes as promotional measures has been mentioned by SSI study units covering structural metal products, non-metallic mineral products, service units, wood products, chemical products, sea and coastal water transport, basic iron and steel, wearing apparel and plastic products.

6.4 Good demand for products of SSI units has been mentioned as a factor favourable for their future growth according to 20 respondent units (16.7%). Stable and growing demand for SSI products is ensured through ancillarization and subcontracting with
large scale units. Consumer oriented units and consumer durable products from these units are likely to grow with the rapid growth of the economy and the fast growth of urban population. Growing demand for the SSI products is supported by different group of units manufacturing fabricated metal products, food products, structural metal products, service units and chemical products.

6.5 It is discouraging to find that some SSI study units (10) hold the view that there is no prospect for the growth of small scale industries. This negative view is probably taken by these units in view of the globalization and liberalization of the economy and gradual removal of reservations for the exclusive production of certain products by small scale industries. Severe competition from the rival SSI units and from large scale industrial units has also prompted these respondent units to hold such a discouraging view about the future growth of the small scale industries.

6.6 Encouraging aspects for future growth of SSI units have been mentioned by respondent units which include government policies, incentive schemes and good demand. Majority of 74 respondent SSI units (61.7%) have mentioned incentive schemes provided by the government to the SSIs responsible for the encouraging trends for future growth of the small scale sector. Good demand for the products of SSIs holds promise for the future growth of SSI units according to 20 respondents (16.7%). Government policies towards SSIs are also useful in future growth of the small scale sector according to 16 SSI units (13.3%).
6.7 The respondent SSI units have made some useful suggestions for the growth prospects of these units in the future. A majority of 71 respondent SSI units (59.17%) have suggested for liberal credit supply to small scale industries. The need of SSI units is larger quantity of credit at economical cost. Credit needs of SSIs is particularly for meeting their working capital requirements. The small size of the capital resources prevents the SSI units from incorporating modern production technologies and their ability to innovate their marketing strategy. The units have pleaded for removing the procedural hurdles in the release of loans and subsidy and to remove rigid installment procedures for loan repayment. Lowering of the tax burden is another suggestion made by maximum of 83 SSI units (69.17%). Tax burden can be reduced by providing tax concessions in the form of income tax rebate, reduced tax rates of sales tax, customs duties, etc. A few SSI units have also suggested for enhanced rates of subsidy and expeditious release of subsidy. This suggestion has come from 4 respondent SSI units (3.33%). There is also a suggestion to streamline the schemes of purchase and price preferences by the government for the SSI products. This aspect of streamlining the purchase and price preferences for SSI products by the government has been suggested by 2 respondent SSI units (1.37%).

6.8 Responses of a large majority of 112 SSI units indicate that they proposed to increase their production level in the near future. This positive approach of the SSI units indicates a good future prospect for the small scale industries.
Majority of 75 SSI units (67%) proposed to increase their production by 11-20 percent, while 35 SSI units (30.4%) proposed to increase their production by 5-10%. A small number of 3 SSI units (2.7%) proposed to increase their production by more than 21 percent.

A few SSI study units have indicated some problems which prevent them from going in for increased production from their units. They relate to inadequate demand, shortage of raw materials, shortage of electricity, etc.

6.9 The small scale industrial sector has vast potentials in terms of employment, output, exports, expansion of base for indigenous entrepreneurship and for dispersal of industries and entrepreneurship skills in rural as well as backward areas. Building competitive strength, technology upgradation and quality improvement are the vital issues needed to be addressed so as to build capabilities of the sector to withstand emerging pressures and ensure sustained growth. The sector needs to reposition itself to meet expanding demands for ancillaryisation, subcontracting and job work from large industrial units/MNCs requiring higher standards of quality, economies of scale and strict delivery schedules. There is need for integration of the SSI sector with the overall domestic economy and global markets by gearing itself to greater interdependence and networking.

It is envisaged that there will be qualitative change in the small scale sector. It will become more professionalized as an inevitable consequence of the increasing competitiveness in the sector. Greater
skills will be needed in the planning and management of even small units. There will also be greater use of new electronic devices such as computers which will need greater professional management (Ram K. Vepa, 1988). Each decade has its thrust areas in the small industry development. In the sixties it was the industrial estate to provide readymade work places to a new generation of entrepreneurs, in the seventies it was the development of backward areas through rural industrialization so that regional imbalances which had developed after the Green Revolution may be counter balanced, in the eighties it was technology as the micro-chip made its way into the small sector transforming it into a hi-tech segment, in the nineties it was the information technology and service industries that dominated the small industry sector. The sector needs very many corrective steps to succeed in the 21st century. The key to success for small scale enterprises would be in looking at the globe as a market and reposition itself as a means to get into the global market place and succeed out there.

**Hypotheses and Results**

The research study has set forth three hypotheses. The results of these three hypotheses have been provided here.

**Hypothesis-1**

The first hypothesis states “The study units have not faced problems of production relating to raw materials, power supply, etc.” The research findings do not support this hypothesis.
i) Shortage of raw materials had led to loss of production by the respondent small scale industries. Annual loss of production of 1-10 percent due to shortage of raw materials is reported by 53 SSI units (44.2%), 10-20% of production loss is reported by 43 SSI units (35.8%), 21-30% of production loss is reported by 10 SSI units (8.3%) and 31-40% of production loss is mentioned by 14 SSI units (11.7%). Hence the shortage of raw materials has been a problem of production of SSI units.

ii) Shortage of power supply had been mentioned by large number of 51 SSI units (42.5%). The shortage of power supply ranged from a minimum of 10% to a maximum of more than 40% of the actual requirement.

The shortage of power supply has resulted in production loss. Production loss due to shortage of power supply was mentioned at 10% by 76 SSI units (63.3%). Production loss of 20% due to shortage of power was mentioned by 35 SSI units (29.2%). Production loss of more than 20% due to shortage of power was indicated by 9 SSI units (7.5%).

The research findings disprove the hypothesis that the study units have not faced problems of production relating to raw materials, power supply, etc.

**Hypothesis-2**

The second hypothesis states that all the study SSI units have adequate demand for their products.
The research findings indicate that large majority of 111 SSI study units constituting 92.5 percent have mentioned that they had adequate market for their products. A small number of 9 SSI units only (7.5%) felt the shortage of demand for their products. Hence the responses broadly indicate that SSI units had adequate demand for their products. Hence the hypothesis has to be deemed to be vindicated.

**Hypothesis-3**

The third hypothesis states that competition from rival units and big units is negligible.

Majority of 94 SSI units (78.3%) have mentioned that they faced the problem of competition from the rival units. Further competition in terms of price competition was faced by 26 units (21.7%), quality competition by 77 units (64.2%), advertisement competition was faced by 8 units (6.7%) and credit sales competition by 5 SSI units (4.3%). In view of the responses it is clear that competition was substantial and not negligible. Hence the hypothesis is not vindicated by the research findings.

**Suggestions**

The following suggestions based on the findings of the research study have been offered for future improvements.

1) The financial base of the small scale industrial units covered by the study is narrow thereby limiting the units financial strength. This weak financial base is mainly due to the predominance of the ‘sole proprietary’ type of organization of these units. This has
important implications because capital shortage among the small units is a major stumbling block in the entry and subsequent expansion. Hence the SSI units should try to form partnership and joint stock companies. It is found from the study that 75% of the units are organized as sole proprietary units. The size of operation can be widened through larger financial resources with partnerships or joint stock companies.

2) Many of the SSI study units have been facing shortage of raw materials and loss of production due to shortage of raw materials has been experienced by them. The production loss due to shortage of raw material has ranged from a minimum of 1-10% to a maximum of 31-40% among the SSI study units. Hence a proper raw material inventory would be useful for uninterrupted production schedule. Modern inventory management techniques should be adopted by the SSI units.

3) Small scale industrial units should have product planning since product is the prime element in marketing mix. Product planning consists of some sequential operations like

- Product idea generation
- Screening of ideas
- Business analysis of ideas
- Product development
- Product modification and
- Product diversification
4) Modern techniques of production should be incorporated to reduce production costs and retraining of technical and skilled workers. It will go a long way in improving labour productivity.

Cost data has not been properly maintained by majority of 89.2 percent of the SSI units covered by the study. SSI units should adhere to some practical policies relating to costs and prices viz.,

- Keep classified record of expenses
- Arrive at exact cost structure
- Decide major elements of cost control
- Take measures to reduce unremunerative costs
- Keep close watch on the market trend of prices
- Take advantage of the rise/fall in competition prices
- Use proper incentives at proper times
- Review prices when they become unremunerative

5) There is need for the SSIs to overcome technology lag. They should establish long term alliances with large companies through process of ancillarisation. Technological obsolescence makes the SSIs fragile because of technological obsolescence and low quality of products as per established standards. It was recommended by Abid Hussain Committee for establishing a National Research Institute for promoting scheme for assisting in technology upgradation and R and D for small scale enterprises.

6) Assured adequate and quality power supply should be provided to the SSI units at economic cost. Power shortage has resulted in loss of production between 10% and 20% of the SSI units
covered by the study. SSI units should try to augment power supply from the KEB by installing their own captive power generating units to overcome unscheduled power cuts.

7) Marketing aspects need greater priority by the SSI units. There is need for developing marketing entrepreneurship along with manufacturing entrepreneurship.

SSI units manufacturing identical products should have a consortium approach in marketing their products. This will help in improving their bargaining power in pooling and grading the products of individual producers thereby encouraging standardization. This approach will enable the SSI units in avoiding competition among small units undertaking market surveys, advertising, etc.

8) SSI units should give proper attention towards product designing with the help of experts in planning/engineering of products. This would go a long way in meeting the changing pattern of customers’ tastes and preferences.

9) Quality marketing centres should be set up at each centres like industrial estates, etc. They can provide facilities for technical guidance, finishing and testing for all manufacturers to help them to standardize their goods.

10) Customers are brand conscious of the good. Hence SSI units should try to adopt brand names for their products. Brand names should be short, simple, easy to spell, easy to read, easy to remember and easy to recognize.
11) SSI units should study the science of advertising properly and plan in advance their advertising strategy taking into account competitors’ strategies, the opinions of their distributors and their own available resources.

12) SSI units should try to hold ‘marketing clinics’ to provide the required data base. Specialists could appraise and help in providing information about design, packaging, quality, weight, size and other factors that affect marketability cost and price.

13) SSI units manufacturing consumer durables must provide necessary after sales service to retain the good will and enhance the image of the firm.

14) Market forecasting through proper techno-economic research has been much neglected in the Indian context and by the SSI units in particular. There is need for improving in this area. SSI associations should work in this direction. Market forecasting is useful in relocating their markets quickly in case of changes in demand for their products in the existing markets.

15) Trade organizations and state level corporations working for the promotion of SSI sector should try to build up awareness among the SSI units about the incentives and facilities. The study has revealed that 43.3% of the SSI units covered by the study were unaware of the incentives. Hence the organizations should try to build up awareness and also to remove bottle necks in obtaining incentives and facilities from the government agencies and financial institutions.
16) Small scale industrial units should aim at sound financial management and realize that liquidity is even more important than profitability. There is need for balancing between profitability and liquidity for continued survival. A suitable mix of own funds and borrowed funds will be a prudent step.

Many of the SSI units covered by the study are experiencing shortage of working capital. The study has revealed that 20.8% of the units are facing shortage of working capital. Capital infusion and credit flow seem to be the real stumbling block. SSI units should realize that sound cash planning which includes setting of cash policies and procedures and control over cast and credit should conform with the planning and control of working capital. Cash is of course a very sensitive component of working capital.

17) SSI units should reorient their outlook and adhere to

- Competitive efficiency in terms of cost
- Effective use of resources
- Value addition
- Productivity
- Financial discipline
- Marketing skills
- Customer orientation and
- Technological competence