CONCLUSION
&
SUGGESTION
CHAPTER VIII

RESUME

This study aimed at identification of financial problems of small scale industry in Tamilnadu. Identification of the problems can help take timely corrective measures to prevent them from becoming sick. It is a painful experience for the entrepreneur to find that a unit which had been set up out of his personal savings and borrowings from financial institutions, friends and relatives becomes sick and ultimately meets untimely death leading to closure of the unit. Such closure cumulatively affects the overall economy of the country as well. To avoid such an end and to give a boost to the industrial development in the small sector such problems need to be resolved and avoided. A joint effort at the level of entrepreneur, financial institution, commercial banks and Central and State Government shall provide an environment for the healthy growth of small industry in Tamilnadu.
FINDINGS

The discussion in the previous chapters has revealed that the Small scale industry of Tamilnadu possesses enormous export potential and wide prospects. It offers a promise to provide gainful employment to a large number of rural workers in the tiny sector.

The export potential of this industry has not been fully exploited due to a poor marketing strategy and financial and non financial problems.

The production system of the industry is by and large dominated by old concepts and techniques and lacks customer orientation in respect of products.

The socio economic conditions of the small scale industry workers are far from satisfactory. On the top of it the Government policy regarding the small scale industry in Tamilnadu has been haphazard. Policy makers have failed to realise the conditions and constraints prevailing in the industry. Neither has the enormous potential of the industry has a foreign exchange earners not a provide of employment been properly recognised. Consequently, it has not been accorded its due place of importance in the state's planning.
One of the common criticisms against Tamilnadu Small scale industry product in the exporting market is that designs lack innovation and variety based on oriented traditions.

One of the import non financial problems faced by the small scale industry of Tamilnadu at present is that the right quality of raw material is not available insufficient quality and reasonable price.

It has been observed that the method of converting the raw material into finished product which is costly, and backyard techniques. The small scale sector firmly believes that the replement of old method of production significantly improve the productivity and job satisfaction of the small scale workers.

Research and Development (R & D) activity is nil or very low in the field of raw material and other production issues. The producing is very low.

No social policy regarding the small scale industry has yet be formulated. The strength of the small scale industry depends upon their sick and application measures. It is sad to note that the socio-economic conditions of this most important assets of the small scale industry are for form satisfactory. No industry can thrive at the expense of human output. Hence all out efforts need
to be taken to a mediorate their lot. The extensive employment of child labour in the small scale industry has adversely affected their social life in the state. The present educational system does not cater to the needs of the rural and urban poor. Small industry workers are not exception. They are drawn from such groups.

Small scale industry production processes has its own professional hazards. It breed many respiratory diseases. Unhygienic and poor sanitary conditions around the small scale industry add fuel to the fire. The poor worker falls an easy prey to these dealy diseases and hence need to be protected.

There is mushroom growth of small scale industry production,centres. In these centres machinery are installed in dingy and dark rooms with no or poor ventilation anhd lighting arrangements. This servicing hampers and impairs the health of small scale workers and thus need to looked into.

The induction of female workers into this industry, though a welcome step has created same special problems. It is to be watched that the these production centres do not turn into illegal activity. Dignity and charity of young adolescent girls need to be honoured and protected.
Training and development of human resources is a continuous process. The training and development of human resource is very poor in the small scale industry in Tamilnadu.

One of the most import non financial problems of the small scale industry manufacturing is that they do not find a suitable distribution channel of exporting their products.

Generally the small scale industry manufactures and exporters have scanty knowledge of market trends and situations. They base their information on selective and subjective bits of information supplied either by importing customers or gathered from machines. This type of information is usually hapazard and inadequate. Being ignorant they fail to keep up with market trends in a constantly changing world. It becomes, theme imperative that Government should establish a making information cell which will continuously monitor foreign market developments in terms of market characteristics, price and distribution.

It has already been stated that Tamilnadu small scale industry face to stiff competition and that the consumers are becoming more quality conscious in view of this there is an urgency as well as need to introduce compulsory quality control in respect of small scale
products. The small scale firmly believes that the real customer orientation based unsound marking research and strict quality control, is essential for small scale product in Tamilnadu to achieve a real growth.

Inadequate promotional campaign has retarded the tempo of growth of small scale industry. In a bid to stimulate sales, the government should resort to a variety of activities such improving the product extending the channels, and increasing their services.

The existing intense competition among the small scale exporters is proving very harmful. To overcome this detective practice of selling, review of the present primarily strategy become a must it has been observed that cash compensatory scheme in respect of export of small scale is inadequate and unrationaized.

The financial requirements of the small scale industry have been increasing in recent years following the steep like in labour and material costs.

Financial problems, if allowed to continue, lead a healthy organisation to a sick one. The unit health undergoes gradual deterioration till sickness manifests in all dimensions.
According to Reserve Bank of India, 117788 small scale units financially assisted by commercial banks, involving a sum of Rs.1071 crores were sick in 1999. The percentage of sick small scale units to the total number of small scale industry borrowing account (financially assisted by commercial banks) increased from 3.2 per cent at the end of December, 1993 to 7.2 per cent at the end of December 1999.

The lending institutions look at the problem from the view point of recovering their money. They regard an enterprise as sick if the recovery of their dues seems uncertain. In fact, default on debt service obligations has been included in some studies among the criteria to define failure of an enterprise.

There may be instances where the borrowers may be defaulting in making regular payments of terms loan instalments or in adjusting the irregularity in the account while they might be actually doing well and making profits. This may be due to the bad intentions of the promoters. Such units which are otherwise doing well are not be classified as sick.

Units which have closed down or where no business is being transacted (which may be generally due to persistent cash losses) are to be classified as sick. However, the
financing institutions should ensure that the position as stated by the firm is correct and is not based on her say.

Sickness is often confused with the incipient stage of sickness i.e. when a unit may start incurring cash losses but has no financial imbalance.

The number of small scale units, the volume of production and the value of exports by these industries have grown substantially during the last 10 years. During 1986-87, the production of small scale industries is estimated to be around Rs.72250 crores at current prices (Rs.64500 crores at 1984-85 prices) providing employment to about 101.4 lakh persons at the end of 1986-87. Exports from the sector accounts for about 22 per cent of the total exports from the country. During 1986-87, village and small scale industries taken together account for about 49 per cent of total industrial production and the contribution of industries falling under the purview of small industries development organisation is about 33 per cent. Exports from this sector account for about 22 per cent of the total exports from the country.

In the sixth five year plan period the small scale industries sector has registered significant growth. The average annual growth rates during this period were: number of units (9.76 per cent), production at constant prices
(8.36 per cent), employment (6.08 per cent) and exports at current prices (16.68 per cent). The trend has continued during the first and second years of the seventh plan.

The small scale units in Tamilnadu is pretty high and constitutes about 7.95 per cent of the total. Rankwise too, the position of Tamilnadu is at number four, next only to West Bengal, Uttar Pradesh and Madhya Pradesh respectively.

Concessional rates of excise duties have been prescribed for clearance between Rs.15 lakhs and Rs.75 lakhs. Small scale industrial units whose value of clearance does not exceed Rs.10 lakhs per year are no longer required to obtain excise licence. Also, excise procedures have been simplified. Excise inspection is limited to once a year and self-assessment procedure has been introduced for clearance upto Rs.15 lakhs per year.

The number of small scale working units increased from 5402 in 1991-92 to 108913 in 1996-97. The percentage increase in the number of units in 1996-97 over 1995-96 works out to 11.68. The number has doubled in 1996-97 over a period of 5 years. The estimated fixed investment rose from Rs.401.63 crores in 1991-92 to Rs.830.02 crores in 1996-97 registering an increase of 12.32 per cent over the previous year. The average fixed investment per unit increased
steadily from Rs.0.74 lakh in 1991-92 to Rs.0.76 lakh in 1996-97.

The employment provided by these units showed an increased of 8.30 per cent during the year ending 1996-97 over the previous year. It rose from 304155 persons oin 1991-92 to 503397 persons in 1996-97. The value of production increased from Rs.1342.66 crores in 1991-92 to Rs.2358.63 crores in 1996-97.

Productivity per employee also exhibited a steady upward trend and moved up from Rs.44.14 (thousand) in 1991-92 to Rs.46.85 (thousand) in 1996-97. The per unit production has not shown a steadily trend. It has rather shown a declining trend since 1991-92 upto 1996-97 from Rs.247540 to Rs.216560.

The available statistics we see that Tamilnadu has made remarkable progress in boosting exports up but the growth in exports of industrial goods has not been uniform. There was a continuous and substantial increase from Rs.90.13 crores during 1986-87 to Rs.228.71 crores during 1992-93. There was only a marginal increase of about 4 crores during the year 1992-93. Suddenly the exports slumped to Rs.197.19 crores during the year 1993-94, but a modest recovery was made in succeeding years; exports rose to Rs.245.20 crores during 1995-96 and to Rs.274.88 crores in 1996-97.
The share of small scale sector in all India exports has been varying between 14.9 per cent to 26.6 per cent; whereas the small scale industries share of Tamilnadu has never been less than 50 per cent in any year and the highest has been during 1995-96 when the percentage share was 64.10 per cent. The growth of all India exports at current prices has been about double from 1986-87 to 1995-96 whereas in case of Tamilnadu is almost three times. The speaks volumes about the tremendous efforts of the industrialists and the priority accorded by the Government. The fact, however remains that the percentage share has been varying between 1.74 to 2.88.

The deposits increased by Rs.875.60 crores during the year 1996-97 registering growth of 19.58 per cent over the previous financial year. Total advances reached to Rs.2483.60 crores with growth of 17.5 per cent, whereas volume of priority sector advances showed an increase of Rs.147.90 crores growth of 18.52 per cent. Direct Agricultural Advance improved from 599.78 crores to 701.98 crores depicting growth of 17.04 per cent. Weaker sector advances stood at Rs.313.46 crores against advances of Rs.258.36 crores as at March 1996 registering growth of 21.32 per cent. Volume of DRI advances improved from Rs.17.58 crores to Rs.18.21 crores.
The calculated value of $t$ is greater than the table value of $t$ at 0.05 level of significance (i.e. $|t| > 0.05$), the difference between the ratios of group mean will be considered significant at 5 per cent level of significance.

The $t$-value of each of the above mentioned 9 ratio is greater than the tabulated $t$-values (i.e. 2.02) for $t_{1.45}(0.05)$ level of significance. It is therefore contended that the 9 financial ratios discriminate between the financial state of health of two groups of units namely regular group and irregular group for initial sample.

The $t$-value of each of the above mentioned 8 ratios is greater than tabulated $t$-values (i.e. 1.98) for $t_{1.115}(0.05)$ level of significance. It is therefore contended that 8 ratios discriminate between the financial state of health of two groups of units for the subsequent sample.

The $t$-values of each of the above mentioned 7 ratios is greater than the tabulated $t$-value (i.e. 1.96) for $t_{1.145}(0.05)$ level of significance. It is therefore contended that 7 financial ratios discriminate between the financial state of health of two groups of units namely regular group and irregular group for final sample.
9 ratios are significant in the analysis of initial sample pertaining to the year 1990-91. Those are $R_2^{EBIDT/NW}$ and $R_3^{EBIDT/TCE}$ belonging to profitability Ratios groups; $R_9^{NW/Debt}$ $R_{10}^{EDIBT/Intt}$ and $R_{11}^{NW/FA}$, $R_{18}^{NS/TA}$ and $R_{19}^{NS/NW}$ all belonging to Activity Ratio group.

In the analysis of subsequent sample pertaining to the years 1989-90 and 1990-91, 8 ratios are significant. There are $R_2^{EBIDT/NW}$ and $R_3^{EBIDT/TCE}$ belonging to profitability Ratios Group; $R_9^{NW/Debt}$ and $R_{10}^{EBIDT/Intt}$ belonging to Leverage Ratios Group and $R_{14}^{NS/I}$, $R_{17}^{NS/FA}$, $R_{18}^{NS/TA}$ and $R_{19}^{NS/NW}$ belonging to Activity Ratios group.

In the analysis of final sample pertaining to the years 1988-89, 1989-90 and 1990-91 it is observed that 7 ratios are significant. Those are $R_2^{EBDIT/NW}$ and $R_3^{EBIDT/TCE}$ belonging to Profitability Ratios group; $R_8^{B.F./WCG}$ belonging to Liquidity Ratio Group, $R_9^{NW/Debt}$ and $R_{10}^{EBIDT/Intt}$. belonging to leverage Ratios group and $R_{17}^{NS/FA}$ and $R_{19}^{NS/NW}$ belonging to Activity ratios group. It is found that all Ratio groups are represented in the analysis of final sample, which is a wider sample as compared to Initial sample and subsequent sample. It is believed that with the increase in sample size, the precision in the analysis too increase.
The value of $F$ as calculated is more than the tabulated value of $F=3.84$ i.e. $F_{1,145}(0.05)$ it indicates that the results are significant i.e. the means of the two groups are significantly separate from each other.

The activity ratios (i.e. $R_{19}-NS/NW$ and $R_{17}-NS/FA$) contribute the most followed by leverage ratios ($R_{9}-NW/Debt$ and $R_{10}-EBIDT/Intt.$) towards the discriminating ability of the multiple discriminant function.

To place the units in the appropriate groups and test the accuracy of the predictive ability of the multiple discriminant analysis model, a cut off point is computed which will minimise the misplacement of units. The cut off point makes predictions possible without computer support and helps the investors, executives, managers, bankers and financial institutions to decide about the state of health of an individual unit under study.

The individual discriminant score of a unit is above $Z_c$, (i.e. 0.94614) the unit is classified in group I (regular units) and if it is below $Z_c$, it is classified in Group II (irregular units).

Type I is the accuracy of correctly classifying the regular units and type II is the accuracy of correctly classifying irregular units. Type I error would be predicting a regular unit having the characteristics of an
irregular unit and Type II error would be predicting an irregular unit having the characteristics of a regular unit. These two types of accuracy and error are computer in percentage as per method.

In this case all the 147 units, comprising of 104 regular units and 44 irregular units, have been put to test. A high degree of accuracy is expected since only significant ratios have been applied into the M.D.A. model. The statistical significant of the M.D.A. model too has been proved with the help of F-test.

Earnings before interest, depreciated and Taxes (EBIDT) to Net Worth ratio has been found to be relatively more significant next to EBIDT to Total Capital Employed ratio in the profitability ratios group. The ratio is significant in the t-test and has proved to be having discriminating ability in the multiple discriminant analysis.

The EBIDT/NW ratio also indicated the under utilisation of assets in the case of irregular units. Under utilising of capacity led to less of sales and hence less of EBiDT. An abnormally higher EBIDT/NW ratio indicated inadequate net worth and necessitated the need for additional owned funds to maintain long term solvency of the unit.
The units belonging to irregular groups were generally found to be having low EBIDT on total capital employed (investment). On the other hand units belonging to regular group were found to be having high EBIDT on total capital employed. In our sample, the total capital employed comprised of owners investment, loans from Tamilnadu Financial Corporation and loans from other sources. It was found that units having high EBIDT/NW ratio were also having high EBIDT/TCE ratio and vice-versa.

The units in the irregular group of industries did not appear to have adequate working capital. The inadequacy of working capital affected the total working of the unit and resulted in under utilisation of assets, uncompetitive strength, low margin on sales and low net profits.

The gap existing between adequate working capital needs and funds available does not allow the unit to extend credit in the market on competitive terms, resulting in poor sales. Shortage of working capital could be one of the major causes of unit becoming irregular.

Net worth to debt has been found to be significant and having discriminating ability in the leverage ratio category t-test has established that the ratio indicating the long term solvency of the unit has the ability of separating group I from group II.
Small scale industrial units falling under category of irregular units (Group II) had lower net worth to debt ratio as compared to the ratio of regular units of Group I. The small scale units are ambitious of setting up a higher capacity unit with the small available capital of their own. TFC too has been found to be liberal in financing small scale units beyond optimum limits and allow higher proportions of debt as compared to net worth of promoters. In the process of raising higher debt, the small entrepreneur introduces the risk of long term solvency. Higher amount of debt coupled with lower cash profits make units irregular in repaying their interest and instalments of debt.

The units belonging to irregular group (i.e. group II) were unable to meet their debt obligations and invited threats to the solvency of the units. They were not only facing the crises of their existence in the long run, but were also facing so many other difficulties of running smooth business in the short run. To be termed as regular units, they tend to siphon their working capital in repaying interest and debt obligation. In the process they invited a number of allied problems resulting from shortage of working capital in the future eg. shortage of raw material, non-
payment of workers' salaries, under utilisation of capacity, non payment of creditors etc.

The ratio is indicative of the total interest covered by the unit and measures the unit's ability to pay its contractual interest obligation. The times-interest-earned ratio measures the extent to which earnings can decline without resultant financial embarrassment to the firm because of its inability to meet annual interest costs. Such inability for a longer period can attract legal action ultimately resulting in liquidation.

It has been observed that units of group II having excessive debt in the capital structure have low times interest earned ratio. It may be due to the fact that as the initial stage of their planning, the irregular units evolved a faulty capital structure by adding more of debt. On the other hand, the units of group I (regular units) had higher EBIDT/TCE ratio and had sound net worth to debt ratio, ensuring timely repayment of the debt obligations.

Net sales to Fixed Assets ratio measures the efficiency with which the unit is utilising its investment in land, plant, equipment, furniture, fixtures and so forth. In addition this ratio serves as a secondary test of the adequacy of sales volume. A high ratio of net sales to fixed assets indicates higher efficiency in utilising its fixed assets.
It has been observed that irregular units had low EBIDT/NW ratio and low EBIDT/TCE in the profitability ratios group. The same units were not adequately financed for working capital needs. As regards leverage ratio group, the units were having low NW/Debt ratio and low times interest ratio. Those very industries were having low NS/F.A. ratio. The units belonging to group I (regular units) were having higher NS/FA ratios as compared to units and had higher times interest ratio. Because of efficient utilisation of fixed assets and high sales they generated impressive EBIDT and thus their EBIDT/Net Worth and EBIDT/TCE ratios were found to be good.

The group II units had excessive capacity than the quantum of sales. The investment tied up in idle capacity added a noticeable burden on the unit. The entrepreneurs should be cautious right from beginning to acquire fixed assets commensurate with the expected volume sales. With optimum utilisation of fixed assets they could generate maximum sales and earn high profits against the net worth and the total capital employed.

The ratio of net sales to net worth measures the extent to which the firm's sales volume is supported by invested capital. This ratio is also termed as trading ratio. A substantially higher than average ratio depicts an
overtrader, a unit which is attempting to stretch the invested rupee to its maximum capacity. The undertrader, on the other hand, has either capital resources in excess of the unit's needs or inadequate sales to support the business. Both the situations of overtrading or undertrading are not good for the business in the long run. A reasonable balance must be maintained between the two situations. The ratio of net sales to net worth measures the degrees to which an industrial unit has attained this balance. The two factors sales and net worth are very much correlated. A proper balance has to be maintained keeping in view the type of operation manufacturing.

The irregular units falling under group II have been found to be undertrading. This might be because of inadequate working capital and/or underutilisation of capacity (fixed assets). Group I units were having higher net sales to net worth as compared to group II units.

Any change in the ratio of net sales to net worth effects the working capital, debt position and earnings of the units. The ratio indirectly affects various other ratios like EBIDT/Net Worth, EBIDT/TCE, current ratio, bank finance to working capital gap ratio, net worth to debt, times interest earned etc. In a way, the net sales to net
worth ratio is an effective tool of measuring efficiency of the entrepreneur in controlling and managing the business.

The entire sample comes under the slightly obsolete with a mean score of 124.81, the maximum and minimum scores of the professional obsolesce scale being 170 and 34 respectively. Managers who scored between 135 to 170 and 113 and below are categorised under not obsolete categories respectively. Another important finding of the study is that on the whole the managers had a high score on Job Involvement (43.94) the maximum being 60 and minimum and 10 and low scores on two subdimensions of Burnout namely Depersonalisation (DP) and Emotional Exhaustion (EE). The score on DP was 5.66 (the maximum being 30 and minimum 0) and on EE it was 13.64 (the maximum being 54 and minimum 0).

For a more meaningful understanding of the data with regard to different groups, further analysis was done. It was found the managers from the functional areas of Marketing, R & D, Finance and Production perceived themselves slightly obsolete with mean scores of 133.00, 128.33, 124.20 and 123.84 respectively. HRD/Personnel Managers perceived themselves to be moderately obsolete with a mean score of 117.00.
An analysis of the scores on different dimensions of obsolescence among different functional areas, levels, span of experience, age groups, qualification level, and income groups, reveals that only managers with an experience of 1-5 years were found to be non-obsolete on one dimension, i.e. Attitude towards learning. However on the dimension of organisation support, they were found to be moderately obsolete.

There were no group differences on overall obsolescence scores on one of the dimensions, i.e. organisational climate, the F-value was found to be 4.05 (on the basis of hierarchical level) which is significant at 0.01 level, the mean scores being 17.69, 16.41 and 14.21 for the senior, middle and junior levels respectively.

It was found that obsolescence had negative correlation with job involvement and personal accomplishment subdimension of burnout and positive correlation with depersonalisation and emotional exhaustion (sub-dimensions of burnout). A similar correlation emerged between the different dimensions of obsolescence with job involvement and burnout.

The total number of developed industrial plots as works out to 2.30 per cent of the total number of small scale industries registered with the Directorate of industries, Tamilnadu.
Small Units having export potentialities are given first priority. The units producing items of import substitution are also covered under similar priority. Next in priority are the enterprises which intend to modernise themselves, require indigenous raw materials, and produce ancillary parts and components for other industries.

The corporation delivered machines worth Rs.1676 lakhs in 1996-97, as against previous year's performance of Rs.1298.61 lakhs. The value of machines supplied on hire purchase basis to units in backward areas, as also to the special categories of entrepreneurs was about 30 per cent of the total value during the last five years.

The Tamilnadu small industries and export corporation in the State used to supply machinery and equipment on hire purchase basis under the scheme of NSIC. This arrangement has been suspended for the last few years. The entrepreneur is expected to avail the facility directly from NSIC. However, the application for the purchase of machinery and equipment is routed through the Director of Industries, Tamilnadu.

The small industries Development Organisation and the Directorate of Industry play a complementary role in the supply of raw material to small entrepreneurs. At the apex, the development commissioner, SSI, as the central
coordinating agency represents the small industries as a whole to various allocating authorities like Ministry of Industry, Chief Controller of Imports and Exports, Iron and Steel Authority, Minerals and Metal Trading corporation, etc. The Development Commissioner, SSI procures allocation of raw materials for the entire sector and distributes it to different states. The overall supply position in respect of critical and scarce raw materials like Iron and Steel, Aluminium, Tin Plate, copper etc. is generally easy in the country.

TNSIEC is running three consignment agencies of Steel Authority of India Limited, Indian Iron and Steel Company Limited and Minerals and Metal Trading Corporation of India. It also distributes ferrous and non-ferrous metals, which include copper, Tin, Zinc, Aluminium, Nickel and Stainless steel.

Marketing of finished products has been the basic problem faced by the majority of small scale industrial units. Due to wide information gap and certain other inherent difficulties in view of current recessionary trends, majority of small units are not in a position to locate prospective buyers for their products.

They lack marketing capabilities and are short of manpower to sell their products. Further they don't have
established Trade Marks and Brands and thus fall easy prey to distribution channels. The distributor, either want them to sell their wares on consignment basis or offer huge margins, leaving marginal profit with the manufacturer.

Realising the necessity of organised services essentially required for the rescue of the small scale industrial units, marketing assistance is also provided to them. Assistance is rendered in two ways. Firstly by undertaking actual marketing of their products; and secondly by conducting marketing research and investment surveys for a particular product manufactured in small scale sector.

The percentage share of small scale sector to the total purchases made by DBS & D is not much. The percentage share has been rather declining in the years 1994-95 and 1995-96 as compared to previous four years.

Besides the TNSIEC has opened a chain of emporia for the display and sale of products manufactured by SSI units, artisans and craftsmen. Special cells to handle handicrafts and Phulkari have been created at these emporia besides a very careful marketing service to SSI units. Procedures for purchases made through these emporia by the Government departments and autonomous bodies have been simplified. This has been done to encourage the sale of products of SSI units registered with TNSIEC.
TNSIEC also renders much needed help and guidance to small scale units to boost exports. It has taken by a number of measures in this regard. These include sponsoring of delegations study the foreign markets and to take part in the International trade fairs/exhibitions thereby providing opportunity to the manufacturers of the state to display their products in the foreign markets. These efforts have resulted in having first hand information about the resulted technical developments taking place in the foreign markets as well as knowledge about the buyer's attitude towards the quality, price and preference (fashion). Business enquiries are made by the corporation for the benefit of SSI units.

To help to improve quality of SSI products, Regional testing centres and a few small industries service institutes have taken up a new activity of organising workshops on quality improvement for better marketing. Under the auspices of UNIDO and the small industries development organisation, an international workshop on sharing expertise and Experience amongst small industries Enterprises in developing countries was successfully organised in February 1995. SIDO also for the first time, participated very successfully in trade fair at Berlin and Paris.

The small industries service institute, Chennai extent their services to the small scale industries in the
state of Tamilnadu. The Institute provides various extension and consultancy services to the existing and prospective entrepreneurs.

Small Industries Service Institute provides common facility services and project profiles/schemes, blue prints and drawings to the existing and prospective entrepreneurs. It also conducts technical training courses, entrepreneurial development programmes, seminars and exhibitions for the promotion of small scale industries in the State of Tamilnadu. Under the modernisation programmes, industrial workshop on quality upgradation are being undertaken by small industries service institute.

To make technical facilities available to small scale industries units, the government of Tamilnadu has set up a network of Quality Marking Centres (common service centres for testing), Industrial Development-cum-service centres, Testing and Finishing Centres. There are also Research and Development Centres for engineerings, electronic textile hosiery, leather and sports goods, chemicals, paints, varnish, rubber goods, etc. Among the more prestigious centres are the Tool room. The Research and Development Centre for bicycles. The Sewing Machine Development Centre, Test House, Tamilnadu Trade Centre, Central Food Technology and Research Institute (CFTRI) Mechanical

Among the various corporations are Tamilnadu handloom Textile and Development Corporation, Tamilnadu Leather Development Corporation and The Tamilnadu State Electronics Development and Production Corporation.

Package of incentives, effective from 1st April 1999, under Industrial Policy and Incentive Code 1999 detailed below are admissible as per categorization contained so as to ensure balanced industrial developments.

25 per cent capital subsidy subject to a maximum of Rs.25 lakhs in A grade Growth Areas, 15 per cent capital subsidy subject to a maximum of Rs.15 lakhs in B Grade Growth Areas and 10 per cent capital subsidy subject to a maximum of Rs.10 lakhs in C grade Growth Areas shall be given. Where Central Government Capital subsidy scheme is applicable, the State Capital Subsidy will be equal to the difference of Capital Subsidy proposed in this scheme and that given by the Central Government.

To promote institutional finance for meeting the entire financial needs of industrial sectors, various government agencies/financial institutions have been established both at the centre and state levels. Directorate
of Industries, Tamilnadu Financial Corporation. Tamilnadu State Industrial Development Corporation and the Commercial banks in the state provide financial assistance under various schemes to different categories of industries.

The term loans for industries granted by the state level institution and commercial banks are refinanced by the Industrial Development Bank of India (IDBI) whereas term loans for Agro-based industries or cottage/tiny industries are refinanced by National Bank of Agriculture and Rural Development (NABARD).

This scheme of seed margin money has been introduced for rural industrialisation. The scheme is implemented in villages and towns having population less than 1 lakh as per 1981 census. This scheme is operating in Tamilnadu since 1990-91 with an allocation of Rs.2.80 lakhs per year per DIC. 50 percent of the expenditure on the scheme is reimbursed by the Government of India as loan to the State Government.

Seed Margin money as a soft loan at the rate of 13½ per cent per annum is sanctioned to the entrepreneur for setting up and expansion of tiny industry. The extent of assistance will be limited to 20 per cent of the total investment comprising fixed capital investment, preoperative expenses and 3 month's working capital requirements or
Rs.40000 whichever is less. In case of entrepreneurs belonging to scheduled castes/scheduled tribes, seed/margin money assistance is further increased to 30 per cent of the total fixed capital or Rs.60000 whichever is less. The assistance will be provided to the industrial units whose capital investment on plant and machinery does not exceed Rs.2.00 lakhs.

The rate of interest on the loan is 10 per cent p.a. centrally declared backward areas and 12 per cent in other areas. The loan is repayable in instalments ranging over 3-7 years with an initial moratorium between 6-18 months depending upon the nature and profitability of the venture.

The corporation was set up in the year 1953 under the state financial corporation act 1951. The authorised and paid up capital of the corporation as on 31st December, 1988 is Rs.50.00 crores and 9.74 crores respectively.

The corporation provides loans ranging from Rs.2000 to Rs.30.00 lakhs to individuals and partnership concerns and upto Rs.60.00 lakhs to limited companies and cooperative societies. The companies with paid up capital upto Rs.3.00 crores are only eligible for financial assistance from the corporation.
Since inception upto 31st March 1998. The corporation has sanctioned effective loans of Rs.23803 lakhs to 5524 units and disbursed Rs.18229.71 lakhs to 4855 units. The major emphasis has been on the development of small scale units in backward areas. In 1997-98, out of its total assistance, 82.5 per cent has gone to the small scale sector both in backward and non-backward areas. Again out of total sanctions, 41.06 per cent has gone to the units set up in the backward areas alone.

During the year 1997-98, the corporation has sanctioned effective loans of Rs.5297.92 lakhs to 801 units and disbursed Rs.3755.83 lakhs to 644 units. During the previous year 1996-97 the corporation has sanctioned and disbursed loans of Rs.3816.68 lakhs to 602 units and Rs.2983.35 lakhs to 456 units respectfully.

The corporation has recently introduced a new scheme for financing of working capital. Under the scheme the corporation will provide term loan of Rs.2.50 lakhs for meeting working capital requirement alongwith the term loan for certain of fixed assets to new tiny and small scale industrial units provided the project cost (excluding working capital margin) does not exceed Rs.5.00 lakhs and the total working capital requirement at the normal level of operation is upto Rs.2.50 lakhs. The interest rate of loan
for working capital will be 14 per cent for loans upto Rs.2.00 lakhs and 15.5 per cent for loans exceeding Rs.2.00 lakhs.

The promoters are required to bring in minimum contribution of 17.5 per cent in case of the units promoted in B category backward districts, 20 per cent in C category backward districts and 22.5 per cent in other districts. In respect of technical entrepreneurs the minimum promoters contribution is expected at 17.5 per cent of the project cost. The corporation retains a margin of 15 per cent to 30 per cent on the value of fixed assets depending upon the size of units, its location and nature of security offers. The assistance provided is generally secured against first registered mortgage of land, building and machinery.

Tamilnadu State Industrial Development Corporation Limited (TNSIDC) was incorporated in 1966 to act as institutional entrepreneur for promotion of medium and large scale industries in the State of Tamilnadu. Later, in the year 1976, it was also notified as financial institution to provide long term assistance under the Refinance scheme of Industrial Development Bank of India (IDBI) since then TNSIDC has extended financial assistance by way of term loans direct subscription seed capital assistance etc. to a number of units in the state TNSIDC extends following financial assistance.
TNSIDC under the IDBI Refinance Scheme, can extended loan in multiples of Rs.90 lakhs each to a company for its expansion/diversification projects with capital cost not exceeding Rs.300 lakhs provided the total aggregate loans including the amounts already advanced do not exceed Rs.500 lakhs. TNSIDC also provides term loan of Rs.100 lakhs under Equipment Refinance Scheme (ERS) of IDBI which is meant for providing speedy financial assistance to existing units who have good past track record for financing plant and equipment for their expansion/diversification/modernisation projects. TNSIDC also extends financial assistance of concessional rate of interest for modernisation of plant. Term loan assistance provided by TNSIDC can also include foreign currency loans to meet the capital cost of imported equipment.

Term loans are extended at interest rate of 11½ per cent p.a. under the IDBI Refinance scheme for projects located in centrally notified backward districts. However as a special case, to help industry in Tamilnadu interest @ 11½ per cent p.a. will be charged for projects located in the entire state up to 31st March 1999 for the present. For loans extended for modernisation purposes, interest is charged at 10½ per cent p.a. loans under ERS carry interest @ 14 per cent p.a.
Entrepreneurs setting up, for the first time, a project in small scale sector where the requirement of seed capital assistance exceed Rs.2 lakhs (seed capital up to Rs.2 lakhs is provided by TFC under special fund scheme).

Entrepreneurs desiring to enlarge their activities within the small scale sector by setting up an independent unit, provided the sum total of investment in plant and machinery or both, all units do not exceed the prevailing ceiling for small scale unit or ancillary unit.

Entrepreneurs who intend graduating from the small scale sector to medium scale sector for the first time by way of expansion/diversification of activities of their existing SSI unit(s) or by setting up a new unit in medium sector.

Entrepreneurs seeking further seed capital assistance to meet over run in project cost caused by factors beyond their control. Such assistance will be provided in special cases subject to total seed capital assistance not exceeding the stipulated ceiling of Rs.15 lakhs.

TNSIDC acts as an agency for disbursement of Central subsidy upto Rs.15 lakhs under the Central Government 10-15 per cent Central subsidy scheme in respect of companies which avail themselves of term loans from TNSIDC for setting up projects in centrally notified districts of Tamilnadu. TNSIDC does not charge any interest on Central
subsidy for the first six months during which reimbursement is sought from Central Government and in case reimbursement is not available within 6 months, interest is charged at rate applicable to term loans in backward areas till reimbursement is received from the Central Government.

As at the December 1995, bank credit to small scale industrial sector formed 15.3 per cent of net bank credit. The share of small scale sector in the total outstanding of the priority sector at the end of December 1995 was 35.9 per cent. The number of small scale units/borrowers assisted by the public sector banks at the end of December 1995 was about 15.67 lakh and the amount of outstanding to the small scale sector Rs.7375 crores.

The total cost of the project should be above Rs.25000 assistance under the Equity fund scheme is between a minimum of Rs.100000. The actual amount of assistance is the difference between 25 per cent of the total project cost and the promoter's contribution. There is no repayment of EFS assistance during an initial period of 5 to 7 years during which the other term loans are repaid. Thereafter it is to be repaid over a period of 5-7 years through monthly/quarterly/half-yearly instalments. Funds lent under Equity Fund Scheme bears no interest.
Commercial banks are required to lend 40 per cent of their total loans to the priority sector. The main problem posed with regard to the flow of credit to small scale industries sector is that though this sector has done well both in the area of production and exports, it has not been getting the credit commensurate with its requirements. Though small scale sector forms part of priority sector for purpose of lending by banks, the percentage share of small scale sector in total priority sector lending has gone down marginally.

The organisational effectiveness scale comprised of eight items of which three dealt with quantity, quality and efficiency aspects of productivity while the remaining five tapped the organisational orientation to adapt to various contingency situations. The present study utilised only six items as against the eight originally proposed, thereby eliminating the two items measuring symbolic adaptation which were considered less relevant for our purpose. All the six items were measured on a 5-point Likert type scale.

Managers saw toning down differences or smoothing as the most preferred strategy for dealing with conflicts, which was followed in descending order by accommodating, confrontation compromise, consulting, following rules,
avoiding arguments and forcing. While the mean values for smoothing (4.18) and accommodationg (3.96) fitted well into the response category most applied, the values for confrontation and compromise were not far behind. The mean values for consulting others and following rules were much above the response category moderately applied. In fact, mean values are quite high for the first six ranked strategies. The least preferred strategies were forcing and avoid arguments, as could be seen from their lower mean values of 2.22 and 2.42 respectively. These values were a bit above the response category least applied. What it implies is that the managers argued and permitted argument on a matter with a view to bring home the point to the parties concerned, but only rarely forced the issue.

As regards the item specific analysis of organisational effectiveness, it was observed that flexibility was the most significant aspect of effectiveness with a mean value of 3.64. Rapidity of adjustment as an adaptability aspect received considerably more weightage than the one dealing with prevalence of adjustment. In regard to the productivity measures of effectiveness, quality and efficiency were found to be significant variables whereas the quantity aspect received the lowest weightage with a mean value of only 2.90 . Furthermore, an analysis of mean
values for overall effectiveness dimensions indicated a predominant emphasis upon flexibility and adaptability. Relatively lesser emphasis was placed upon the productivity dimension.

The intercorrelations among the eight conflict resolution methods, as shown in the upper triangle ranged from −.25 to .35 with seven correlations being significantly different from zero. The presence of both positive and negative correlations suggests that some methods were more likely to be used together (by the superiors) than others. In particular, it appears that the superiors who followed rules and regulations on a wider scale in resolving conflicts were also likely to use more of compromising but less of forcing behaviours. The use of consultation was more likely to be accompanied by accommodating others, but it precluded the superiors withdrawing from the conflict situations. Surprisingly toning down or smoothing was positively related to forcing. Finally the use of confrontation was accompanied by more of accommodative and consulting behaviours in resolving conflicts.

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While the mode of following rules was negatively related to the prevalence of adjustment, the confrontation mode had a positive significant relationship with flexibility. The remaining correlation failed to indicate statistically significant results.

The multiple R²'s estimated for efficiency and prevalence of adjustment were rather relatively low. In fact, rapidity of adjustment as an adaptability measure was not well predicted by the conflict management strategies. The regression coefficients as reported to certain meaningful relationships. It may be observed that each of the effectiveness measures differed in terms of its relationships with the specific strategies for conflict management. As the conflict management variables were entered simultaneously into the regression equation, it was noted that only the accommodating mode accounted for a significant proportion of the variance in the quantity of output (B=-0.32, p<0.05). Similarly, the quality aspect of effectiveness was explained to a significant measure only by the avoiding or withdrawing mode of resolving conflicts (b=0.32, p<0.05). However, neither efficiency nor rapidity of adjustment was explained by any of the conflict resolution methods. It is also noteworthy that while the mode of accommodating others had a negative significant relationship
with flexibility (B=-0.39, p<0.01), the confrontation mode was both positively and significantly related to the measure of effectiveness (B=0.46, p<0.01).

Although the conflict management strategies taken together explained 13 per cent of the variance in overall effectiveness, their predictive power differed with respect to the specific effectiveness measures i.e. productivity, adaptability and flexibility. In fact, the flexibility aspect received the largest percentage of variance (25 per cent) and it was followed by productivity (19 per cent) and adaptability (10 per cent). When the conflict resolution modes are considered individually in terms of their relationships with the various dimensions of effectiveness, it can also be noted that the accommodating mode had a negative significant relationship with productivity (b=-0.35, p<0.05) as well as flexibility (B=-0.60, p<0.01). Whereas the confrontation mode was positively related to flexibility (B=0.46, p<0.01). None of the conflict resolution modes, however, explained the adaptability dimensions to a significant degree.

Thus, on a comparative evaluation of the conflict resolution methods, it has emerged that confrontation is the most effective mode of resolving superior-subordinate conflicts followed by smoothing behaviours. These findings
have been consistent with those of Burke but are in contrast to Lawrence and Lorsch's assertion that forcing can be considered as an effective back-up method to confrontation. The results of the present investigation have clearly demonstrated the negative value of forcing behaviours from the organisational standpoint.

The multiple regression results highlighted certain important aspects of the relationships between conflict management strategies and organisational effectiveness. The regression equations fitted against each of the specific measures of effectiveness led to the following significant results; (1) the confrontation mode was positively related to flexibility; (2) the accommodating mode was negatively related to flexibility as well as to the quantity aspect of productivity; and (3) the withdrawing mode was positively related to the quality of output. It was also noted that the conflict management strategies (when considered collectively) tended to relate much more systematically with the flexibility and productivity aspects of effectiveness than with adaptability. The multiple $R^2$ estimated for overall organisational effectiveness, though not very high (0.13) nevertheless suggested that conflict management is an important behavioural component of the organisation and that it is crucial in enhancing the effectiveness and all-round development of the organisation.
Another significant finding that emerged was with respect to the efficacy of the accommodating mode of resolving conflicts. Although this strategy apparently seemed to be a well-conceived one, the results of the study failed to support the hypothesis; this mode was rather found to have serious detrimental effects on organisational effectiveness. The underlying rationale seems to be that this strategy calls upon the managers to defer to the viewpoints of their subordinates at the expense of their own judgemental capacities. It is therefore suggested that this strategy needs to be only sparingly used.
SUGGESTIONS

The small entrepreneur at the time of project planning should evolve a sound equity based capital structure. Financial institutions too should strive to make the entrepreneurs aware of risk inherent in addition of excessive debt into the capital structure. Higher the amount of debt, higher obviously would be the interest and mortisation. Only in exceptional cases, where profitability is relatively high, and adequate owner's capital is not being available the upper limit of debt to net worth ratio be utilised. Under adverse conditions with unstable and unpredictable cash flows, the risk of debt financing is obviously to be considered with due caution. The times interest earned ratio may therefore be used as a guide in deciding the proper mix of debt and net worth (equity).

Financial institutions should not allow the small scale units to fully utilise their debt raising capacity in the beginning itself. The unused part of debt raising capacity should always be reserved for contingent situations. It is observed that in a number of situations cost of the project over runs during gestation period itself It could either be due to inflationary trends or under estimation of costs due to lack of experience and knowledge. To meet the over-run costs of the projects additional term loan
be sanctioned. Financial institutions should not absolve themselves of the responsibility of financing over run costs simply by incorporating a clause of meeting the over run costs by the entrepreneur out of his own resources in the terms and conditions of loan deed. The entrepreneurs tends to finance over-run cost out of funds reserved for working capital. To take stock of such situations Debt-Equity Ratio be constantly monitored.

Both the financial institutions and the entrepreneur should ensure that the costs have been estimated accurately while preparing project report. Sufficient margin for contingencies should be added into the total cost of the project. Siphoning of funds reserved for working capital to fixed capital be strictly disallowed at any stage of implementation of the project.

The financial institutions should ensure that the small scale unit acquires fixed assets, i.e. land, building, plant and machinery etc. in keeping with the expected sales volume. Over ambitions small entrepreneurs tend to set up higher capacity units even when they have limited funds of their own. To overcome the gap thus created excessive borrowing are resorted to. The unutilised capacity continues to be a drag on the health of the unit. It has a direct bearing on ratios. To overcome such a handicap, net sales
to fixed assets ratio of other similar industrial units should be used as a yardstick. Any expansion in fixed assets should be made only when the initial expectation has fructified.

The financial institutions should ensure that working capital needs have been adequately estimated at the time of preparation of project report. A small entrepreneur because of lack of business experience generally under estimates the working capital requirements of the unit. Working capital is the life blood and controlling nerve centre for any industrial enterprise; its inadequacy results into under utilisation of capacity and leads to many other problems. The financial institutions should, while appraising a proposal, estimate adequate working capital requirements of the unit. The working capital needs should be adequately financed out of the owner's capital and long term sources of funds besides financing by commercial banks. The institution granting term finance should bridge the gap existing between the total needs and sources of working capital so that the unit runs smoothly. The ratios of Net Sales to Gross Working Capital and Bank Finance to Working Capital Gap should be made use of in determining the adequate working capital requirements and the gap.
The Financial Institutions before sanctioning of loan should ensure about the future prospects of the products and services. The product market grid is of considerable significance for capital structure planning. If the situation is congenial for stable sales and growth prospects, it is obviously a favourable condition for higher debt financing of projects. In adverse situations, when the existing industrial capacity is fully meeting the demand in the market, a sanction of loan shall be doing harm to the new entrepreneur, existing industrial units and the financing institutions as well. For this an up-to-date knowledge about the market is required on a continuing basis. Financial institutions should set up a strong MIS cell which should keep on conducting market surveys to study the marketing feasibility of products. The profitability ratios and activity ratios provide an insight into the status of the industry into which the unit is proposed to be set up.

The financial institutions should compare the expected profitability of the proposed unit with the profitability of the industry. It should not rely upon simple hypothetical mathematical calculations presented in the project report. A comparison of expected profitability ratios of the proposed concern and profitability ratios of
the industry vis-a-vis cost of capital should be the sole criterion to establish rationale behind sanctioning a loan. The total return and cash flow statements shall determine the repayment of loan.

The financial institutions and the entrepreneurs should ensure that a reasonable balance has been maintained between the sales volume and working capital of the units. More sales with less working capital results in overtrading in the business. Such a situation threatens the short term solvency of the unit. A reasonable amount of working capital (current assets) is required in the business to meet current liabilities arising out of current operations of the unit. The liquidity ratios should be applied for ensuring the short term solvency of the units.

The entrepreneurs should ensure that the inventories of raw materials and finished goods should be maintained in proportion to the quantum of sales. If Abnormal/low level of inventories are there, the reason for the same should be investigated and remedial steps should be adopted to rectify the same. The ratios of sales to inventory of the industry provide sufficient indication about the level of inventories to be maintained by the unit.
Commercial banks should also own the responsibility of financial adequate working capital. The need based financing of working capital should be the approach instead of reliance on security oriented financing. Separate cash credit limits for raw materials, goods in process finished goods, bills sent for collection and bills purchased be granted as per need of the business. The commercial banks out of their experience should help the small entrepreneur in estimating the working capital needs of the unit. Those needs should be adequately and timely financed to provide a healthy environment for the growth of the small unit. Various ratios like net sales to inventory, net sales to working capital, debtors turnover (average collection period) current ratio and Bank finance to working capital gap should be made use of in determining working capital needs of the unit.

Most of small scale units are either proprietary or family partnership concerns. It gives greater control to the promoters over the working of the unit. The entrepreneur are reluctant to supply information about their business habits to the banks, who would like to have full knowledge about the capabilities, character and repaying practices of the borrower. This makes it difficult for any banking institution to invest risky capital in a such a venture.
CONCLUSION

In the completion of this study, the scholar had to face acute shortage of statistical information which seriously tampered the investigative process. The study could have revealed many more facts had the adequate data been available. The non-availability of data is mainly attributed to the fact of small industry being run in an unorganised fashion. The urgency of monitoring up to date information is quite imperative for an industry which has a prominent role to play in the economic development of the state. As such it is highly desirable to create a cell that could keep and maintain proper and adequate statistical information of this industry. Such a cell would help the planners and researchers alike in the formulation of perspective plans and projects to help to boost the small scale industry.

NOTE: PAGE NUMBERS ARE SUB-NUMBERED DUE TO THE PAGE RESTRICTIONS OF THE BHARATHIDASAN UNIVERSITY