CHAPTER VII

GENERAL INFORMATION ABOUT SELECTED UNITS
In this chapter, I propose to give some general information about the units surveyed such as type and age of establishment, age and educational background of the entrepreneurs, reasons for starting the unit, number of workers employed, capital output ratios, capacity utilisation etc.

(1) Type of Establishment

The typical form of organisation in the small scale industry appears to be partnership firms. Out of 66 units surveyed, 39 units (59 percent) were partnership firms. Another most commonly found pattern of ownership/organisation, in the small scale units was private limited companies. It was observed that out of 66 units, constitution of 21 units (31.8 percent) was private limited company. Out of the rest of the 6 units, 5 units (7.6 percent) were single man ownership or proprietorship units. Only one unit from 'Chemicals & Chemical Products' category of industry was found to be a limited company.
The type of constitution suited for a unit is normally dependent on various factors like the nature, size and type of industry, the extent of capital, and various skills and functions required to be performed by the entrepreneur. In the table No.9 (in the Annexure) details of industry-wise patterns of ownership have been given. From the table it will be observed that the industry-wise distribution of 5 proprietorship units has been as under -

<table>
<thead>
<tr>
<th>Type of Industry</th>
<th>No. of Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engineering</td>
<td>3</td>
</tr>
<tr>
<td>Chemical &amp; Chemical Products</td>
<td>1</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total units</strong></td>
<td><strong>5</strong></td>
</tr>
</tbody>
</table>

It was observed that all these five units, whose pattern of ownership was proprietorship, had low capital base.

Putting partnership and private limited units together, there were a total of 60 units or 90.9 per cent units belonging to these forms of ownership. These two forms of ownership were therefore the most common forms found in small scale
units in this study. It may be mentioned here that it has 
been a common observation or finding of other surveys\(^\text{(1)}\) 
that the most common pattern of ownership in small scale 
industrial units has appeared to be single man proprietor­
ship and partnership and that there were few units which 
had 'private limited' as form of ownership. The increased 
percentage of units having private limited form of owner­
ship in the case of sample units surveyed by me, may be on 
account of two reasons. In the first place, the sample units 
for other surveys are having very low capital base i.e. 
capital investment below Rs.2.00 lakhs, whereas I had 
selected sample units in the range of capital investment 
of Rs.2.00 lakhs to Rs.10.00 lakhs. In the second place, 
there is a possibility that over the last 15-20 years the 
common pattern of ownership is undergoing a change and that 
the number of units, having 'private limited' as form of 
ownership is increasing. It is likely that some of the 
partnership units might have been converted into private 
limited companies, on account of stipulation of such 

\(^{\text{(1)}}\) i) Dr.Kopardeker S.D. "Small Scale Industries - 
A study in Investment and Output aspects" 
(G.Y.Rane Prakashan, Pune) 1974, Page 38 & 96. 
ii) Pathak H.N. "Problems of Small Scale Enterprises" 
(IDBI) 1975, Page 51. 
iii) Lakdawala D.T. & Sanderson J.C. 
"Small Industry in a big city - A survey in Bombay" 
(University of Bombay) 1960, Page 15.
condition by their bankers, while sanctioning enhanced credit limits. The bankers while sanctioning enhanced limits, normally stipulate that the constitution of the unit should be changed to private limited company for the purpose of strengthening their security, as in the case of private limited companies the banker's charge on securities can be registered with the registrar of companies, by which double financing by other bankers can be avoided, which is not possible in the case of partnership firms.

(2) Age of the Units

Out of the 66 units surveyed 22 units (33.3 per cent) were more than 20 years old. Of the remaining 16 units (24 per cent) were established about 15-20 years back, and 19 units (28.8 per cent) were established about 10-15 years back. The remaining 9 units (13.6 per cent) were of recent origin and were established about 5 to 10 years back. The industry-wise details regarding age of the units have been given in Table No.10. (in the Annexure A).

As expected none of the electronics units was more than 20 years old, most of these units were of recent origin.

It was observed that out of the 66 units surveyed, only one unit from 'electronics' category showed normal growth pattern and had become a medium scale unit within a period
of 7 years from its establishment. Besides one unit from 'engineering' category is likely to become a medium scale unit shortly. This unit was established in the year 1972 and it has taken about 12 years to become a medium scale unit. No other unit showed such kind of growth orientation.

It will thus be observed that most of the small scale units do not grow into medium or large scale units, but remain in the small scale sector for years together. This observation has also been made by the Institute of Cost & Works Accountants of India, Calcutta, in its book "Management Accounting Problems in Small Scale Industries", (1975 Edition). It has been mentioned in the book as under -

"The normal growth pattern of small scale units would have been that initially starting as a small scale unit, it would expand into medium scale over a period of time. Not many small units have shown this kind of growth orientation as was noticed in the earlier days, specially in the traditional industries".

One of the reasons quoted by entrepreneurs of SSI Units for remaining in the small scale sector is that they wanted to take advantage of the various incentives offered by the Government and other agencies. However, most of the entrepreneurs, while replying some other question had informed me that they did not receive much assistance from Govt. agencies and that their entry into the business was not on account of
availability of incentives. This indicates that provision/availability of various incentives did not have much effect on the growth of small scale units. This view was confirmed by Mr. Sharad Kulkar, Secretary (Industries), Government of Maharashtra. (2) He has said that it is true that at present there are no special incentives for an entrepreneur to grow out of SSI Sector and enter the medium and large scale sector.

I feel that another reason for such slow growth in SSI units is that many of the SSI units face marketing problems and they are not able to utilise their existing production capacity to the fullest extent. Though underutilisation of capacity might occur due to several reasons like inadequate finance, non-availability of raw materials, labour problem etc. my study has confirmed that one of the major causes of low capacity utilisation is lack of demand or some other marketing problem. It was observed by me during my study that 54 per cent of the units surveyed by me had utilised their installed capacity upto 60 per cent only and the major cause of under utilisation of capacity was marketing problem. Naturally as the small units are not able to utilise their existing capacity to the fullest extent, the question of expansion for becoming a medium or large scale unit does not

arises. It was also observed by me that some units were in a static position and that their sales in quantity were not increasing for the last 4-5 years. For example, brass utensils manufacturing units from the 'basic metal and metal products' category have not been able to increase (or even maintain) their sales turnover since last 4-5 years, mainly on account of decreased demand for brass utensils due to preference of customers to stainless steel utensils.

(3) The Age of the Entrepreneur

By the age of the entrepreneur I mean the age at which an entrepreneur started his unit. Before giving the distribution in respect of age of entrepreneurs let me make clear the definition of entrepreneur as perceived by me.

Entrepreneur is the key factor in determining the performance of any venture. Entrepreneurship can be understood in terms of the following major areas in which an entrepreneur is required to take a series of decisions. These major areas are -

i) Perception of an opportunity
ii) Organising an industrial unit and
iii) Running the industrial unit as a profitable going and growing concern.

Emergence and working of a small scale industrial unit is divided into two important steps. The first is inception
phase which extends from perception of an opportunity to establishment of the industrial unit. The second is the operational phase, which includes the first two or three years of the working of a unit after its establishment. This covers the managerial phase wherein the entrepreneur starts managing the unit and takes all the relevant decisions. The terms entrepreneur and manager are therefore, used interchangeably, in so far as, in a small unit, it is generally the entrepreneur who manages his unit after the inception phase. (3) In the small scale sector, the entrepreneur is required to develop a set of diversified abilities. All this arises out of the typical indivisibility of the management function. In the small scale sector the entrepreneur may not be an innovator par excellence, but the totality of his activities could nevertheless be included under three important aspects of entrepreneurial activities mentioned above.

In the small scale sector therefore entrepreneur may be regarded as co-extensive with starting of a small scale unit. Small scale units have practically very small financial reserves to absorb the impact of adverse changes in the economic environment. This makes the role of entrepreneurs in SSI units all the more critical and important. The capability, determination and grit of the entrepreneur decide the success or failure of his small scale unit.

(3) "Problems of Small Scale Entrepreneurs" (H.N. Pathak) (IDBI) 1975, Page 19.
I have interviewed either the proprietors in the case of sole proprietorship firms, or the managing partner or managing director in the case of partnership firms or private limited companies, as they were regarded by me as entrepreneurs of the respective small scale units. In a few cases the manager of the firm or company was interviewed by me, as in these cases it was the manager, who was doing the above mentioned entrepreneurial functions. For example in certain cases wife or mother of the manager is the proprietor or managing partner, but it is mainly the husband or the son who is managing the show, although on paper he is merely an employee of that firm or company.

Reverting to the original subject of the age of the entrepreneur at the time of starting the unit, it may be mentioned here that 39 units (60 per cent) were started by the entrepreneurs in the age group of 30-40 years. Besides a group of 17 entrepreneurs (26.15 per cent) was found to be in the age group of 25-30 years. The industry-wise details of age group of entrepreneurs have been given in Table No.11.

The purpose of obtaining these data was to find out whether there is any correlation between efficient management of the unit and the age of the entrepreneur. However after analysis of the data, it was observed that there was no correlation between the age of the entrepreneur and the health of the unit, which is normally the result of efficient management.
Educational Background of the Entrepreneur

It was observed that entrepreneurs of small scale industrial units had different types of educational background and that the majority of the entrepreneurs were well-qualified. Out of 65 units(*) covered in the survey, entrepreneurs of 22 units (33.84 per cent) were technically qualified. In respect of 'electronics' units, out of 5 units, 4 units had technically qualified entrepreneurs and all these entrepreneurs were successful in properly managing their units. As regards 'light engineering' category of industry 13 units or 59 per cent of engineering units were managed by technically qualified entrepreneurs. Of these 3 units were sick units, which were managed by technician entrepreneurs. It was observed that many of the technician entrepreneurs perceived the opportunity when they were working for some other employer.

Of the remaining units, entrepreneurs of 18 units were educated upto graduation level and of 20 units upto HSC level only. Entrepreneurs of 3 units were having professional qualifications like C.A., M.B.A. etc. The industry-wise details of educational background of entrepreneurs have been given in Table No.12. (in the Annexure A).

(*) Note: Although total number of sample units were 66, as information was not available in the case of one unit (due to its closure) the analysis in this thesis relates to 65 units. In the case of the first two points (i.e. pattern of ownership and age of units) information available from the 'Industrial and Commercial Directory of Pune' has been used.
(5) Working Hours of the Entrepreneur

One of the most common problems of the entrepreneurs of SSI units is the shortage of time which inhibits the owner-managers of SSI units. In many cases, particularly in the case of sole proprietor firms, the owner-managers have to dance attendance to different Government departments and agencies for various types of assistance necessary for the successful running of the units. The pressure on his time makes the owner-manager, a typical case of jack of all trades, master of none.

For the purpose of my study, I made enquiries with entrepreneurs regarding their working hours. It was observed that more than half of entrepreneurs i.e. 46 work for about 8-11 hours or even more than 11 hours per day. In the case of sole-proprietorship units, almost in all cases, the entrepreneur was required to work for about 8-11 hours or even more than 11 hours per day.

In the case of partnership firms also the managing partner was required to work for about 8-11 hours per day or even more. This was more common in the case of firms where the other partners were family members and were sleeping partners. These partners are taken normally for the purpose of reducing tax burden and for all practical purposes, the firm is one man show. But, in the case of partnership firms, where there
are two or three working partners and the work is divided amongst them, the working hours of managing partners are reduced to 6-8 hours per day. Industry-wise average working hours of entrepreneurs have been given in Table No.13.

(6) Reasons for starting the Unit

The most common reason stated by the entrepreneur for starting the unit is that he was in allied trade. Of the total units surveyed 29 units (44.6 per cent) were started as their entrepreneurs were in the allied trade. This reason was more common in the following categories of industries.

i) Basic Metal & Metal Products
ii) Paper & Paper Products
iii) Cement & Cement Products
iv) Chemicals & Chemical Products

Of the remaining units, 10 units were started as the entrepreneurs were in allied trade as employees. In the case of 'engineering' category, 7 units out of 22 units were started as their entrepreneurs were in allied trade as employees, 2 units were started as entrepreneurs had some special training in the line, and 3 units were started as the family business existed and the entrepreneurs whom I interviewed had joined the same. Besides some entrepreneurs stated reasons like the product suggested by a friend, or
import substitution etc. In fact these are the reasons for
the choice of a particular product for manufacture and not
the reason for entering the business.

I had also requested entrepreneurs to inform me whether
they had started their unit with a view to taking advantage
of various incentives offered by the Government and other
agencies. It was observed by me that entry of entrepreneurs
into the business was not much influenced by availability of
incentives.

The Table No.14 gives industry wise break-up of
reasons of starting the unit.

(7) Occupancy of land and buildings

43 units (66.15 per cent) owned the land and buildings.
5 units (7.7 per cent) had taken land on lease basis and
owned the buildings. 8 units (12.3 per cent) had both land
and building on rental basis. Though details of the rent
paid for rented premises were not asked by me, during an
informal chat some of the entrepreneurs told me that the
rentals were nominal as the factory premises were hired
about 10-15 years back. The remaining 9 units (13.8 percent)
had their factory premises in industrial estates promoted by
MIDC (Maharashtra Industrial Development Corporation).
(8) **Number of workers employed**

The industry-wise details of the average number of workers employed have been given in Table No.16. From the table it will be observed that the "Food & Food Products" industry has employed the maximum number of skilled workers i.e. 330 skilled workers per unit. This high average of skilled workers per unit in 'Food' Industry is on account of inclusion of two bidi units in 3 units of 'Food & Food Products' category of industry. (*) It may be mentioned here that the bidi industry is still one of the most important small scale industries, which provides employment on a large scale, particularly to female employees. That is why in the case of one food unit, which was not bidi unit there was high measure of dispersion, in respect of the number of skilled workers as compared to average skilled workers in the industry.

The 'light engineering' industry employed, on an average 31 skilled employees as against which 'electronics' industry employed 32 workers. In the case of 'Basic Metals and Metal Products' category the average number of skilled workers was 10, whereas there were no skilled workers in 'Cement & Cement Products' and all workers were classified as semi-skilled or unskilled workers.

(*) Note - It is not understood as to why bidi units are included in 'Food & Food Products' category of industry.
(9) **Capital-Output Ratios**

In economics, the concept of capital-output ratio appears simple, which is not true. The ratio measures quantitatively the relationship between a unit of output and the quantity of capital required to obtain that output. Whether small scale industries should be promoted or not depends, at least partly on how efficiently they utilise resources and the capital output ratio indicates the utilisation of resources by a unit. The concept of capital output ratio is important as a higher ratio will increase the growth rate.

However much complexity is experienced in defining the output and capital. It may be noted that capital co-efficients normally refer to capacity output and not to actual output. (4)

In reality however, it is rare that the two coincide and normally firms would not be working to their full capacity due to variety of reasons like breakdown of machinery, raw material shortage, inadequacy of power, lack of demand etc. Similarly, the output may be taken at gross or net value added by the manufacturer, or sales value. I have therefore calculated, for the purpose of my study, capital - output ratios for both (i) output capacity and (ii) actual output or actual capacity utilisation and by taking output as "Sales Value".

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(4) Lakdawala D.T. and Sandesar J.C.  
"Small Industry in a big city - A survey in Bombay"  
(University of Bombay) 1960, Page 17.

..131.
As regards capital, I have followed the definitions of Central Statistical Organisation (C.S.O.) for Annual Survey of Industries (a.S.I.). The following definitions have been accepted and followed for the purpose of the Annual Survey of Industries.

**Fixed Capital**: It represents the depreciated value of fixed assets owned by the factory as on the closing day of the accounting year.

**Working Capital**: It is the sum total of the physical working capital i.e. all physical inventories owned, semi-finished and finished goods and the cash deposits in hand and at bank and the net balance of amounts receivable over amounts payable at the end of an accounting year. It however excludes unused overdraft facility, fixed deposits, term loans and advances for acquisition of fixed assets.

**Productive Capital**: It is the total of fixed capital and working capital.

I have calculated Actual output to capital and capacity output to capital ratios for almost all the units surveyed by me and the details have been given in Table No.17 in Annexures. It will be observed from the table that there is
a wide variation in output capital ratios, in the case of
units surveyed by me, both industry-wise and within industry.
It was observed that even in the case of some sick units
output/capital ratios worked out very high, if calculated
on the basis of 100% capacity output. It means that had
these units not become sick, than they would have utilised
capital more efficiently.

The following table gives average output capital ratios
for different industries.

**TABLE - VII-A**

**Average Capital-Output Ratios**

<table>
<thead>
<tr>
<th>Type of Industry</th>
<th>Gross output to fixed capital</th>
<th>Fixed capital to gross output</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paper &amp; Paper Products</td>
<td>5.1:1</td>
<td>0.19:1</td>
</tr>
<tr>
<td>Basic Metal &amp; Metal Products</td>
<td>10.9:1</td>
<td>0.09:1</td>
</tr>
<tr>
<td>Electronics</td>
<td>3.01:1</td>
<td>0.33:1</td>
</tr>
<tr>
<td>Engineering</td>
<td>5:1</td>
<td>0.20:1</td>
</tr>
<tr>
<td>Vehicle and Vehicle Parts</td>
<td>13:1</td>
<td>0.07:1</td>
</tr>
<tr>
<td>Chemicals &amp; Chemical Products</td>
<td>7:1</td>
<td>0.14:1</td>
</tr>
<tr>
<td>Food &amp; Food Products</td>
<td>9.17:1</td>
<td>0.10:1</td>
</tr>
<tr>
<td>Cement &amp; Cement Products</td>
<td>22:1</td>
<td>0.04:1</td>
</tr>
<tr>
<td>Textiles</td>
<td>5:1</td>
<td>0.20:1</td>
</tr>
</tbody>
</table>

..133.
It will be thus observed from the above table that capital-output ratios were on higher side in respect of 'Cement & Cement Products', 'Vehicle Parts', 'Food Products' and 'Basic Metal & Metal Products' categories of industry.

According to Annual Survey of Industries 1980-81, the ratio of fixed capital for all economic activities (All India basis) was 0.49 : 1. As per ASI (Annual Survey of Industries) Report 1980-81, capital output ratios for the different factory sizes were as under.

<table>
<thead>
<tr>
<th>Capital Investment in Plant &amp; Machinery Range (Rs. in lakhs)</th>
<th>Fixed Capital to Gross Output Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto 1.00</td>
<td>0.11 : 1</td>
</tr>
<tr>
<td>1.00 to 2.50</td>
<td>0.11 : 1</td>
</tr>
<tr>
<td>2.50 to 5.00</td>
<td>0.13 : 1</td>
</tr>
<tr>
<td>5.00 to 7.50</td>
<td>0.16 : 1</td>
</tr>
<tr>
<td>7.50 to 10.00</td>
<td>0.14 : 1</td>
</tr>
<tr>
<td>10.00 to 20.00</td>
<td>0.15 : 1</td>
</tr>
<tr>
<td>Above 20.00</td>
<td>0.62 : 1</td>
</tr>
</tbody>
</table>
It may be recalled here that the sample units selected by me for survey are having capital investment in the range of Rs.2.00 lakh to Rs.10.00 lakhs. It will be observed from above that the appropriate capital output ratios of ASI Report for comparison are 0.13 : 1, 0.14 : 1, 0.16 : 1, as these are the ratios in respect of units having capital investment in the range of Rs.2.50 lakhs to Rs.10.00 lakhs. After comparing the results obtained by me with ASI report, one would notice that capital output ratios for some of my sample units were much lower than ASI Report. But the ratios were equal to or more than ASI data in respect of certain industries viz. (i) Basic Metal & Metal Products, (ii) Vehicle Parts, (iii) Food & Food Products (iv) Cement & Cement Products & (v) Chemicals & Chemical Products.

However, in spite of differences in the results obtained by me and ASI data, one thing is clear from both my survey and ASI data that the capital-output ratios of small scale sector units are distinctly better than those of medium and large scale industries. Mr. R.Venkataraman (5) has also stressed the point regarding better capital - output ratios of small scale sector over large scale sector, while challenging the argument of Dhar & Lydall that small enterprises are

most capital intensive industries. The better capital—output ratios of small enterprises over large scale industries, support the argument that the small enterprises need smaller resources.

(10) Capital—Labour Relationship

Many studies have reported that small scale industries are not only labour intensive but also fairly efficient in their use of capital. However the evidence from countries like Korea and Taiwan revealed both supporting examples of and many exceptions to these generalisations. This is hardly surprising since an industry's labour intensity is often an attribute of the product in question rather than a function of plant size. (6)

Capital—labour ratio gives the range of capital intensity in different industries or an idea about the magnitude of capital requirements per worker employed in the industry. I have calculated the capital labour ratio by dividing fixed capital (as defined earlier, while calculating output—capital ratios) by average number of employees in each category of industry, for ascertaining the capital intensity of the sample units. The number of employees refers to the entire labour force which includes workers and office

staff, but excludes the casual labour and entrepreneurs themselves.

The Table No.18 given in the Annexure, shows the magnitude of fixed capital employed per worker in respect of each industry. The average amount of gross capital employed per worker worked out to Rs.12,520/- in respect of my sample units, as compared to average investment per worker of Rs.8370/- as per survey conducted by State Bank of India in the year 1974-75.

The average capital investment per worker in respect of 'Food & Food Products' industry was lowest i.e. Rs.890/-. This was mainly on account of inclusion of two bidi (\*) manufacturing units in 'Food Industry', which are highly labour intensive. After 'Food Industry', it was observed that the 'Vehicle Parts manufacturing Industry', 'Cement Products industry', 'Basic Metal & Metal Products industry', 'Engineering industry', and 'Electronics industry', had lower capital investment per employee of Rs.3500/-, Rs.5145/-, Rs.11,850/-, Rs.16,120/-, and Rs.13,450/- respectively. Although the investment per worker in the case of 'textile products' industry, worked out to Rs.63,800/-, the sample consisted of only two units and amongst them there was a large variation in capital investment per worker.

(*) (Note: It is not clear as to why Bidi Units are included in "Food & Food Products" category of industry).
As per Annual Survey of Industries 1980-81, the fixed capital per worker was as under.

<table>
<thead>
<tr>
<th>Capital range in terms of Gross value of Plant and Machinery (Rs. in lakhs)</th>
<th>Fixed Capital per worker</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upto 1.00</td>
<td>4627</td>
</tr>
<tr>
<td>1.00 to 2.50</td>
<td>6464</td>
</tr>
<tr>
<td>2.50 to 5.00</td>
<td>8302</td>
</tr>
<tr>
<td>5.00 to 7.50</td>
<td>10242</td>
</tr>
<tr>
<td>7.50 to 10.00</td>
<td>11356</td>
</tr>
<tr>
<td>10.00 to 20.00</td>
<td>12839</td>
</tr>
<tr>
<td>Above 20.00</td>
<td>57886</td>
</tr>
</tbody>
</table>

When I compared the results of my survey with the above figures, I observed that the average amount of gross capital employed per worker (of all industries) as per my survey was Rs.12,520/- as against Rs.9,966/- as per ASI Report. Although the average fixed capital per worker as per my survey was little more i.e. Rs.12,520/-, than the national average, it was certainly very low as compared to the fixed capital per employee of Rs.57,886/- in respect of medium and large scale units. This indicates that small scale industries are labour intensive, as compared to medium and large industries.
The Sources of Capital

Even if the cost of project works out to a few lakhs, a new entrepreneur, who starts a small scale industrial unit, finds it extremely difficult to bring in even a 10 per cent margin of his own. Some banks do have an equity fund to meet the margin requirements, which in essence means provision of loan without margin. However, this form of assistance is limited to very few banks. As most of the units surveyed by me were started about 10 years back, none of the units had availed this facility of equity funds from the banks. In most of the cases the entrepreneurs raised the margin money from their past savings, or by taking unsecured loans/deposits from their friends, and relatives. In a few cases, it was observed that the entrepreneurs brought their margin money by diverting funds from their sister concerns or trading businesses.

It was observed by Mr. P.N.Dhar(7) in 1955-56, that for long term finance most of the small establishments were primarily dependent on their own internal resources, mainly by way of plough-back of profits. He had observed that since the absolute size of the profits is small, the plough-back is consequently small and prescribes a very tardy rate of growth. He has further observed that for working capital,

(7) Dhar P.N. "Small Scale Industries in Delhi - A study in investment, output and employment aspects" (Asia Publishing House) 1958, Page 40.
the small scale industries were dependent on the short term finance from the merchants. In no case was the plough-back found to be sufficient to take care of the management of the fixed assets as well as working capital. The role played by banks as a source of finance to small scale industries was insignificant.

The position has however changed much thereafter and it was observed by me that almost all the units surveyed by me were financed by commercial banks for their working capital requirements. As regards their requirements of term finance, the needs were met both by commercial banks and State Financial Corporations. Banks have been extending finance to the SSI units for a fairly long time now. Especially from the start of the seventies, the banks have done yeomen service to the cause of the development of the SSI units.

As of March 1971, the number of accounts of small scale units with banks was 1.00 lakh and the outstanding balances were Rs.493.10 Crores. By March 1981 the number of accounts spurted to 9.21 lakh numbers and the balance outstanding was Rs.3300.60 Crores. According to Annual Report 1984-85 of Reserve Bank of India, by the end of March 1985, the amount of outstanding advances of scheduled commercial banks to SSI stood at Rs.6608 Crores as against Rs.5447 Crores as at the end of March 1984.
The performance of the industrial sector as a whole during 1982-83 was much below expectations. Apart from a distinct slow down in the growth rate of the index of industrial production to 3.7 per cent (1982-83) from 8.6 per cent registered during 1981-82 - the output targets in respect of a large number of industries remained unfulfilled. Reflecting this marked deceleration in the growth rate of the index of industrial production and, in particular, that of manufacturing sector, the utilisation of productive capacity continued to be on a low key for the year 1982-83.\(^{(8)}\)

The recent news items in financial papers however now indicates increase in capacity utilisation in the manufacturing sector. While a part of excess capacity may be due to factors internal to the firm, a good part is due to the factors beyond the control of the firm. One of such major factors is inadequate or undependable supply of infrastructural facilities. There may be other external factors such as general industrial unrest, power cut etc. over which the firm may have little control. Among the internal factors that account for excess capacity, the principal one must relate to management.\(^{(9)}\) Management may not have been able to purchase sufficient raw material to run the factory to the

\(^{(8)}\) The Economic Times Research Bureau "No Pick-up in Capacity Utilisation" - The Economic Times dated 26.10.83.

\(^{(9)}\) Sandesara J.C. "Capacity Utilisation" The Economic Times dated 12.6.82.
full. It might not have been able to get working capital finance adequately or might have overestimated demand.

Capacity under utilisation is one of the important factors that retards growth of output and employment in the small scale sector. Though utilisation of capacity can not be hundred per cent in all the industries, in all the regions, and at all the times, satisfactory performance of small industry in generating employment, commensurate with capital investments should have an upper limit for capacity utilisation. If it is a temporary phenomenon then it should not be a cause of concern. But if it continues for long time, then it becomes a matter of concern for policy makers, bankers and other promotional agencies, as it results in a number of problems.

In one of the backward districts in Andhra Pradesh, out of 105 units (in 1980-81), 41 % units have utilised capacity below 50 per cent, 5 % between 51-74 percent of capacity, 6.17 % between 75-90 percent capacity and only 5 % showed full capacity utilisation. (10) Capacity under-utilisation is not unique to backward regions alone but is found with equal intensity in fast growing or developed regions in the country. In another district, in a developed state like

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Maharashtra, about 50 percent of the units were reported to be working less than 50 percent of the capacity, about 26 percent working between 50-80 percent of their capacity, and only 24 percent working between 80-100 percent of their capacity. The average utilisation of installed capacity worked out to roughly 51.1 percent. As per report of SBI the average capacity utilisation of all units surveyed was 49.3 percent in 1974-75. Even according to study of National Council of Applied Economic Research, an analysis of utilisation of capacity of 551 units showed that in a majority of the cases, in the year 1969-70, the units were operating below 50 percent of installed capacity. In hardly 15% was utilisation above 80 percent of installed capacity.

During the survey, I also tried to analyse the position regarding utilisation of capacity by small scale units and causes of under-utilisation. Out of the total number of 66 sample units selected, in respect of 4 units it was not possible to have any assessment regarding capacity utilisation. This was mainly on account of nature of their production or jobs undertaken by them. For example in the case of one engineering unit, as it is engaged in job orders, the managing partner of the firm was unable to give any information about capacity utilisation. Similarly, in the case of

two bidi units from 'Food & Food Products' category of industry, it was not possible to apply the concept of capacity utilisation.

Although it was possible to have some idea regarding capacity utilisation in respect of 62 units the concept of capacity is in itself tenuous. One is not sure on what basis this is estimated and at what levels of efficiency of operation. In cases where multi-products are involved capacity is often expressed in terms of value of output, which does not convey much. It was observed that in many cases the estimate of capacity utilisation given by the entrepreneur was very rough. Besides, in certain cases the entrepreneurs expressed that it was rather difficult to estimate the extent of utilisation of their capacities. Some equated capacity with sales.

Even in respect of the reasons for under-utilisation of capacity, some entrepreneurs were not able to give real causes of under utilisation. For example in the case of one unit, the reason given by the entrepreneur for under utilisation was lack of adequate working capital finance. However, after analysis of its final accounts it was found that the real cause of under-utilisation was lack of demand for the product.
In view of these limitations much perhaps cannot be read into the figures of capacity utilisation. However, some broad conclusion could be drawn that many of the units are not producing as much as they could produce, due to one reason or another.

Industry-wise details of capacity utilisation and reasons for under-utilisation have been given in Table Nos. 19 & 20. It will be observed from these tables that out of 62 units, 20 units (32.25 percent) were working below 50 percent of production capacity, 14 units (22.58 percent) were working between 51-60 percent of their capacity, 22 units (35 percent) were working between 61 to 80 percent of their capacity and only 6 units (9.6 percent) were working between 81 to 100 percent of their production capacity.

As regards causes of under-utilisation of capacity, although many factors were mentioned by the entrepreneurs, the more important among them were shortage of raw materials, inadequacy of finance, lack of demand for the product and absence of modern management. In many cases combination of two or more factors contributed to under-utilisation of capacity. The most dominant factor responsible for low-capacity utilisation was lack of adequate demand for the product.
It is argued that being basically a one man management system, small scale units lack the depth and coverage of the information system as well as the speed of operation and the decision making abilities of large management teams. The smallness of size inhibits division of labour to some extent and makes it difficult to attract and hire professional managers. The owner manager is not generally an expert in management and most of the time he is busy in the day-to-day operations leaving him very little time for organizing and planning for the future.

Due to lack of requisite expertise and organisation, the small firms make wrong decisions, as a result of which they face financial problems. In such situations, the entrepreneur normally does not know the right course of remedial action and he approaches his banker for additional financial assistance. At this juncture, sometimes a banker is not in a position to make a complete diagnosis of the malady. He is therefore in a dilemma whether to grant additional financial assistance or not.
The calibre of management has been one of the most decisive factors in influencing the success or failure of any small enterprise. The causes of business failures in the United States indicated that over 90% of all business failures in 1957 were attributed to managerial inefficiency. A manifestation of such inefficiency is the existence of unsatisfactory organisation and lack of proper management controls in a firm. Inefficient management can exist within a good organisation structure, but it is seldom that efficient management can exist within an inefficient organisation structure. The need to observe the principles of organisation in the erection or creation of good organisation structure is necessary in the small scale units as in the large scale.

Organisational structures set people in certain relationship of authority, influence and dependence. Organising is the structuring of people and functions, and therefore it is the means by which co-ordination of all factors of production is effected to achieve the optimum allocation of resources. As the small firm grows in size, a number of new managerial problems arise. The transition from one man structure to the organisational structure based on specialisation, scalar principle (scalar principle means subordinates

should communicate with their senior colleagues only through the immediate superiors following the chain of command), principle of unity of command, and principle of span of control is a difficult transition. Two of the most serious problems faced by the small units are the lack of recognition of principle of span of control and observance of the principle of unity of command, especially when there are differences among partners.

In my questionnaire I had designed a question about organisational structure of the unit. I would like to mention that out of the 65 units surveyed by me, entrepreneurs of hardly 7 units could give me some sort of organisational structure of their unit. In the case of the rest of the units, there was no organisational structure created and these firms or even some of the private limited companies, were more or less one-man show. It was observed that in the case of 14 units, although organisation as such was not structured, there was work distribution amongst partners and there was a low degree of delegation to the subordinate, who was named as 'Manager' by the entrepreneur.
In the case of engineering industry it was observed that out of the 22 units surveyed, 4 units which have grown very well, had developed organisational structures, based on the principles of specialisation, scalar principle, unity of command etc. This was evident from the organisational chart and the way of working of the entrepreneurs. The entrepreneurs of all these 4 units could give me the entire information required by me for my survey in one sitting, and the entrepreneurs were not frequently disturbed by their subordinates for routine decisions.