Chapter VIII

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The performance of the small scale sector has been impressive, and it is one of the fastest growing sectors of the economy. There has been a big leap in the number of small scale units, in employment generated and in the range and quality of items manufactured. According to mid-term appraisal of the Sixth Five Year Plan, the actual performance has bettered the targets during the first three years of the plan.\(^1\) This is however, a superficial reading of the situation and a closer look at the small scale industry reveals that SSI continue to face a number of problems. The problems faced by the small scale sector are numerous and complicated, and as one tries to solve the current difficulties, new ones arise. Several facilities and incentives have been offered for the small scale sector like reservation of items for exclusive development in it, price preference, concessional finance, subsidies, etc. Recognising the need for developing an industrial promotional structure at the state and the district level, various developmental agencies have been created like State Industrial Development Corporations.

\(^1\) The Economic Times 30.1.1985.
State Financial Corporations, State Small Scale Industrial Development Corporations, District Industries Centres etc. However, in spite of functioning of such developmental agencies, small scale industries continue to face numerous problems which are mentioned in the following paragraphs.

**Raw Materials**

One of the basic problems faced by the SSI units is shortage of raw materials at the right price, of the right quality and of the required quantity. The small industries contribute about 40 per cent of the country's industrial production, but they get only 10 per cent of the total allocation of raw materials. The government has tried to improve the situation by making available to them some critical raw materials like iron and steel in large quantities. (2) Besides, the import policy has been liberalised and the list of items under O.G.L. has been widened. In Maharashtra State MSSIDC is supplying raw materials worth Rs.20.00 to Rs.25.00 crores every year to the small scale sector. Despite such efforts, bottlenecks in the supply of raw materials still exist. The allotments of raw materials by state supply corporations have always been inadequate and are hardly sufficient to work thirty to forty percent of the installed capacity in the sector. (3)

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(3) "Growth problems of small sector"
According to the Secretary (Industry), as reported in the 15th report of the Estimates Committee 1980-81, the total allocation of raw materials, which is capable of being made in terms of the present availability, does not even come to ten per cent of the assessed capacity in certain category of industries. This, many a time, compels a small scale unit to start off with chronic cost disadvantage. Sometimes such situation compels or induces a small scale entrepreneur to use cheap and inferior quality of raw materials, which naturally affects the quality of their finished products and reputation. The irregular supply of certain raw materials also adversely affects their production planning.

It was observed by me that out of 65 units(\*), 17 units (26.15 percent) had problems in the area of procurement of right quality of raw materials, at reasonable prices. In some cases, the supply of raw materials was irregular and it affected production programmes of small scale units. It was observed that the 'Basic Metal & Metal Products' category of industry faced the problem of raw materials more acutely and 5 units out of 11 units (45 percent) faced the problem of raw materials. These entrepreneurs complained that the

\*(*) Note: Although total number of sample units were 66, as information was not available for detailed study in the case of one unit, the analysis in this thesis relates to 65 units.
Government sponsored institutions like MSSIIDC are of little or no help in procurement of raw materials and that they are required to purchase materials from the open market. One of the entrepreneurs told me that he is buying a raw material (pig iron) from MSSIIDC, but the quantity supplied is insufficient, the quality is poor and rates are high. He further said that small scale units are not allowed to buy pig iron and coke directly from S.A.I.L. & B.C.C.L. Hence they have to purchase it either from MSSIIDC or from the open market. He asked whether this is a penalty for being a small scale unit? Another unit complained that the SSIDCS change their procedures overnight, without giving any notice to its clients, due to which units face difficulties.

Out of the 65 units, entrepreneurs of only three units said that government promoted institutions like MSSIIDC, MMTC etc. help in procurement of raw materials etc. But entrepreneurs of as many as 50 units expressed an opinion that these institutions are not of any use to the small scale sector. Surprisingly one unit however praised MSSIIDC and the entrepreneur of this unit told me that MSSIIDC has helped him to solve the problem of shortage of raw materials and his sick unit could be revived mainly because of help from MSSIIDC.
It was observed by me that irrespective of the category of industry, a majority of small scale units purchased their raw materials in the open market.

It may be mentioned here that in respect of my survey although 17 units had problems in the procurement of raw materials, no unit appeared to have faced any serious threat to its survival, due to this problem. This may be on account of the availability of all the major types of raw materials in large quantities in the open market, but at a little higher price. As a result of non-availability of scarce raw materials, small units do not necessarily work below the economic level, as they procure such material from the open market at a premium.

It was observed by the National Council of Applied Economic Research (NCAER) as far back as in 1971 that with indigenous materials, the problem mainly was the method of allocation which often resulted in 'created shortages'. The normal mode of allocation on the basis of capacities was criticised as rather unrealistic as in the case of small enterprises there is no proper assessment of capacities. Many felt that capacities in several cases existed only on paper, and in some states capacity figures were purposely inflated

to secure higher allocation of certain raw materials. NCAER further observed that the raw material shortages that existed were marginal which could quite easily have been taken care of with timely imports.

Taking into consideration the fact that the problem of raw materials is not that acute, effecting viability of small scale units, and that the existing system of allocation of quotas of raw materials by Government Departments or SSIDCs has failed to solve the problem, I feel that the State Small Scale Industrial Development Corporations (SSIDCs) should not be entrusted with the job of distribution of materials to the small scale units.

There have been many defects in the system of pricing, handling charges, service charges and transport charges by SSI Development Corporations. It is surprising that some of the canalising agencies revise the sale prices with retrospective effect. In such cases it becomes an additional burden on small scale units as the sales of finished product, in which the raw material has been used, are already made based on the prices of raw materials then prevailing. Some of the entrepreneurs told me that these Corporations take advance money for supply of raw materials, but supplies are not made in time. In the cases where SSIDCs make the supplies in reduced quantities, refunds of excess money are not made for a long time.

These state corporations are themselves complaining that producers do not supply them the scarce raw material to their full requirement. As per their statements, they get the scarce raw materials to the extent of 10% to 30% of their requirements and in turn small scale units also get from these agencies 10-30 percent of their requirements. That is why I feel that SSIUCs should not be entrusted with the work of allocation of raw materials. But then where from small scale units would get their supply of raw materials? The reply is open market. It is recommended that the system of allocation of raw materials to both small scale and large scale sector be totally abolished and industrial units should purchase raw materials from the open market. But as a compensation, the small scale sector may be given some sort of a subsidy, proportionate to their utilisation of scarce raw materials. The rates of subsidies can be revised/abolished by the Government from time to time, depending upon the market situation. This subsidy would remove the imbalance or reduce the benefit received by large scale industries over small scale units, on account of bulk purchases.

It was also observed by me that the 'Chemical Industry', 'Light Engineering Industry' and 'Paper Industry' were also having problems in the area of availability of raw materials.

In the paper industry, units manufacturing corrugated boxes were facing the problem of irregular supply and a sharp hike in the price of their basic input, kraft paper. This problem was not restricted to Pune area only, but it had become an all India problem, as was evident from the statement of the President of the Federation of Corrugated Box Manufacturer's Association. (7) According to the Federation quite a number of small and medium sized units in the industry are facing survival crisis and may have to close down their units unless remedial measures are initiated in time. The paper producers are alleged to be taking full advantage of the situation and have been marking up prices frequently. This upsets the cost calculation of box manufacturers. During my survey I asked two such corrugated box manufacturers, that if prices of raw materials are increased, why are they not increasing prices of their finished products? Both of them informed me that the users of boxes are not inclined to pay increased prices, and due to tough competition in the line the box manufacturers are helpless. Does this not indicate that the real problem is cut-throat competition and that the severity of the problem has increased due to hike in prices of kraft paper especially to SSI units.

It was further mentioned in the news item that the Northern India Corrugated Box Manufacturer's Association has also requested the Government to permit import of kraft paper under U.G.L. at a concessional rate of interest. I feel that if government would allow imports of kraft paper, then later on it may create problems for indigenous paper producers. In such situations the government should therefore make a study of the pros & cons of allowing imports and then should take a decision. In fact some of the small paper manufacturing units are already reported to be in troubled waters due to various reasons. (8)

Finance

Finance is one of the most critical inputs for any industry. I observed that out of 65 units, 11 units (17 %) faced financial problems. Almost in all the cases, excepting one, the problem of finance was faced along with some other problem like lack of demand or competition or labour trouble etc. It was observed that in the case of only one unit lack of adequate finance was responsible for affecting the health of that unit. This was a unit from 'Paper Industry' category, manufacturing composite containers and paper tubes. I have discussed details of this case, in the chapter on case studies as to how lack of finance led to sickness of the unit. But in

all other cases although, finance was stated to be a problem area, it was not that severe so as to affect the viability of the units.

Out of 65 units, entrepreneurs of 43 units (66 percent) expressed that the credit facilities available to their units from their banks were adequate. However, entrepreneurs of 22 units expressed that bank finance was not adequate to meet their requirements. But all the entrepreneurs, who expressed inadequacy of credit facilities, did not state finance as a problem. According to some entrepreneurs, although the credit facilities granted by their bankers were adequate for the present level of their operations, they required additional credit facilities for increasing their business.

Entrepreneurs of 40 units (61 percent) expressed that there was no delay or not much delay in getting credit decisions from their bankers. However, entrepreneurs of 25 units (39 percent) said that there is delay or some times inordinate delay from banks in giving credit decisions. The most common reason stated by entrepreneurs for such delay is the organisational set up of the banks having three or four tiers. Other reasons stated were long and cumbersome procedures and attitudes and approach of bank officials. One entrepreneur however said that banks take credit decisions expeditiously, but delay occurs on account of non submission of necessary information by units to the bank.
In certain cases, the entrepreneurs had no complaint about commercial banks, but were annoyed at the State Financial Corporations for their delay in taking credit decisions, on account of cumbersome procedures.

As regards complaints regarding inadequacy of bank finance, it was observed that while some of these complaints were really genuine, in some cases they were exaggerated and not true. For example, the entrepreneur of one unit, wherein shortage of working capital finance was on account of diversion of funds to another unit, also blamed the banker for not providing adequate finance. I have discussed this case in the chapter on case studies. (Case study No.3). Similarly another entrepreneur also blamed the banker for sickness of the unit, when in reality the real problem was marketing due to which the firm was unable to increase its sales turnover. In this case the unit was able to achieve a meagre sales turnover of Rs.0.60 lakh to Rs.0.90 lakh over a period of 3 years, as against working capital limits of Rs.4.30 lakh and term loans of Rs.11.00 lakhs. In the case of many other units also who had complained about inadequacy of bank finance and had stated finance as one of the problems, I observed that the bank finance provided appeared to be prima-facie adequate. In this context, I observed that the entrepreneurs never considered the principle that the banker as a lender should
supplement the borrowers' resources to carry an acceptable level of current assets and that borrower should also provide certain contribution from his own resources. That is why in certain cases, although the debt-equity ratio was more than 5:1 or even negative, the borrowers felt that banks should provide more and more finance. A.C.Hazal and A.S.Reid have also rightly said that any increase in the bank overdraft, which is out of line with any increase in sales means something is wrong. (9)

I observed that in most of the cases the problem in respect of finance was coupled with the problem of delayed payments by the buyers. Although only 11 units faced the problem of bank finance, 21 units (32 per cent) complained about the problem of delayed payments by the buyers. The problem was found to be most acute in the case of 'Light Engineering' industry, where in 10 units (45 percent), faced this problem. In the 'Light Engineering Industry' sector, the problem of delayed payments was more in ancillary units. The entrepreneurs gave the following reasons for delayed payments from their buyers.

i) Competitors offer credit for a longer duration. This was the most common reason.

ii) Funds position of clients not good.

iii) Buyer's market.

iv) Procedural delays of Government Departments.

Here I would also like to make a mention of the opinion expressed by one entrepreneur of an engineering unit. He said that if the small scale unit is maintaining quality, then it will never face the problem of delayed payments. To support his statement he even showed me his records, from which I observed that the large scale companies, about whom some other small scale entrepreneurs had complained, are making payment of bills of this company promptly, within a period of 30 days. But then for this purpose one has to maintain quality of products. It will be observed from Table No.21 & Table No.26 that in certain cases where the entrepreneur has mentioned delayed payment as a problem, number of days credit given varied from 61-160 days or even more. In a few cases even where credit given to customers was over 180 days, the entrepreneur did not mention that he faced the problem of delayed payment.

These days, a number of complaints are being made by the small scale industries and their associations about delayed payments and non-execution of directives of Reserve Bank of India by commercial banks. The Working Group appointed under
the Chairmanship of Shri K.B.Chore has recommended that banks should insist on the public sector undertakings/large borrowers to maintain control accounts in their books to give precise data regarding their dues to the small units and furnish such data in their quarterly information system. This would enable the banks to take suitable measures for ensuring payment of the dues to small units by a definite period by stipulating, if necessary, that a portion of the limits for bills acceptance (drawee bills) should be utilised only for drawee bills of small scale units. The Reserve Bank of India has directed commercial banks to implement the above recommendations of Chore Committee and it was revealed from discussions with some of the Executives of banks, that banks are implementing these recommendations. But the more important question is whether implementation of these directives of R.B.I. would really solve the problem of delayed payments. Can such problems be solved by force or legislation? If banks would force the large industries (including public sector) to make payments to small scale industries promptly, then naturally as the 'Sundry Creditors' portion will be reduced, banks will be required to grant more finance to large scale industries while granting working capital limits. Besides, if the large units would like to take undue advantage from small industries, they would be able to do so, inspite of all restrictions on the part of the bank. For example large scale industries can insist
upon small scale industries that they will not make direct purchases from them and that they will make all purchases through some trader or sole selling agency either promoted by small scale unit or by large scale industries themselves. And it is likely that where there is unhealthy competition amongst SSI units, the large scale units would be able to get long duration credits from small scale units indirectly.

I therefore feel that such directives or actions on the part of banks may not solve the problem, as there are limitations on the banker's time and how deep he can go in any single proposal. The only solution to this problem, is to have such policies and procedures by which mushroom growth of small scale industries in any particular line can be avoided or at least reduced. This is because the problem of delayed payment becomes serious, affecting viability of units, when there is unhealthy competition amongst small scale units or when there is buyer's market. But then how to avoid such mushroom growth of small scale industries? Today small scale sector is a delicensed sector and it is difficult to keep record of capacity built up in any particular line. I have discussed this aspect in details later in this chapter. I have tried to suggest some procedure for avoiding such mushroom growth of small scale units in a particular line while discussing marketing problems. Even if a bill is passed prescribing the course of action against wilful defaulters, it cannot prevent cases of non-payment due to closure of large units.
The problem of delayed payment existed in countries like Japan also, and a Japanese economist has observed as under (10), in 1960

"---- Squeezing of subcontractors (55) ancillary units) by prime contractors (large scale units) is the most outstanding characteristic of the small business problem in Japan. The form of oppression represented by delayed payment of subcontracting money, which was not existing anywhere in Europe & USA."

Eugene Staley & Richard Morse have mentioned that the large enterprises enjoy monopolistic advantages vis-a-vis the numerous small producers who are often strenuously competing among themselves and are thus caught in the "Scissors" of high cost of raw materials against low price output. (11) With a view to solve the problem of delayed payments, the Law for the Prevention of Delay in Payments to subcontractors (Shitauke Daikin Shiharai Chien Ho) was passed as long ago as in 1956. The law was subsequently strengthened in 1962 and 1963 when the period within which payment to subcontractors had to be made was fixed by the

(10) Staley Eugene and Morse Richard
"Modern Small Industry for Developing Countries"
law, and the minimum size of firms offered protection by the law was raised. Although the law was designed in Japan to regulate delays in payments because of unilateral unfair lowering of the prices to subcontractors etc. it has never been an unqualified success. (12)

It was recognised at the outset that subcontracting firms might well be loath or unwilling to lodge the report which would initiate an investigation under the law. The authorities themselves can therefore initiate investigations where they have reasons to believe that the practices described above occur. However limits on time and resources have restricted the number of cases which could be investigated over the years, whilst fear of losing orders from his main customers to one of their numerous competitors has restrained many subcontractors from initiating the investigation process. Moreover, where conduct in violation of the law has been found to have occurred, the erring firm is not penalised as such.

I think that the above Japanese experience in respect of legislation towards delayed payment of bills of subcontractors, confirms and supports conclusions drawn by me in the earlier paragraphs that introduction of legislation may not solve the problem of delayed payment, in India.

(12a) Ibid Page 69.
Lastly I would like to mention that I have not discussed here the financial problems faced by a new industrial unit at its inception. This problem has been discussed separately in the chapters on case studies, and the chapter on causes of sickness. (Chapters IX & X).

Labour

Proper handling of labour which is one of the important factors contributing to industrial production, is one of the most difficult tasks of entrepreneurs because of the human element involved in it. These days the labour force is fully aware of its rights and hence it is also necessary for an entrepreneur to know the various laws relating to labour. Besides, the entrepreneurs should also have the art and skill of handling labour unions (wherever they exist) as also individual workers.

It was observed that out of 65 units, 14 units (21 percent) had problems in the area of labour. In most of the cases the problem was regarding handling of labour or in the field of industrial relations. But in a few cases the entrepreneurs faced the problem regarding availability of skilled labour or high labour turnover. Amongst all categories of industries, the labour problem was most acute in the engineering industry.
In the Engineering Industry, 6 units out of 22 units (36 percent) had labour problems. The problem of labour had assumed such seriousness in the case of 3 of these units that entrepreneurs quoted labour problem as one of the causes of failure. Understanding fully the role of cordial labour relations in the success of any unit, entrepreneurs of some successful and healthy units, gave cordial labour relations as one of the reasons of their success. It was observed that in the case of most of the units which had cordial labour relations, the entrepreneur quoted his way of handling and good treatment to labour as a key to his success in labour relations. In the case of some units, entrepreneurs said that they treat their workers as members of their family and that they help them financially by giving hand loans, whenever any worker is in difficulties.

Some entrepreneurs were however unhappy and expressed that just as workers have the right to work, equally sacred is the right of an employer to retrench labour or close down an uneconomic industrial unit. In the case of one unit from the 'Engineering Industry' category, the unit was already facing the problem of demand recession for the last 3 years and was finding it difficult to earn profits. At this stage the labour did not give co-operation and the labour force was resorting to go-slow tactics for a long period. This...
entrepreneur was therefore forced to declare a lock-out and
thereafter declare closure of the unit after obtaining
permission from the Government. In this case because the
entrepreneur could foresee in time that the unit would start
incurring losses he took steps to close the unit as soon as
he was required to face labour problem along with demand
recession. Due to such closure of the unit, without much
loss of time, the unit was able to repay all its liabilities
to banks, labour, creditors etc. In this behalf the views
expressed by Mr. Naval Tata, as Chairman of the Employers'
Federation of India appear to be appropriate. Mr. Naval Tata
said that no employer would like to cut his own financial
throat to spite his workers. It is normally felt that workers
would consider in their own interest to make efforts to keep
their units alive and prevent its closure. However the survey
findings are different from this general feeling. It will be
clear from the case studies that the labour force has not
given any co-operation to entrepreneurs in times of difficul­
ties. As Mr. N.C. Dalal has rightly pointed out in his article
"Industrial Sickness - Reasons" that an entrepreneur finds that
running an industry is like riding a tiger which cannot be
dismounted however one wishes to. (14) For if the unit wants
to close down to avoid accumulation of further losses, it has

(14) Dalal N.C. "Industrial Sickness - Reasons"

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to find cash resources for wages and salaries for a three month notice period, for retrenchment, compensation and gratuity, over and above the funds for encashment of outstanding leave and proportionate bonus for the year in question. Besides the unit has to be prepared for handling labour disturbances during the notice period without getting any worthwhile production.

Marketing

Marketing is the most difficult problem faced by small scale units. Several marketing problems have been identified like lack of standardisation of products, poor product quality, poor finish, poor after sales service, excessive competition among the small scale sector, lack of knowledge of marketing etc. (15)

In today's environment production of goods and services is not a big problem. The real problem lies in marketing them. The assessment of demand is very important for the success of any project. A small entrepreneur, many a time, does not have the means nor the resources to assess the market demand. Market analysis should be a part and parcel of our infrastructural support, which is not so today. It has not been possible for us to develop such tools of market analysis due to lack of

It was observed by me that out of 65 units, 45 units (69 percent) faced marketing problems. In marketing area 28 units (43 percent) faced the problem of competition from other units. Although 45 units or 69 percent of the units faced marketing problems, the problem was not much serious in all the units, affecting their survival. But in the case of 12 units, the problem had become so serious that these units had to become sick units. Out of the total of 15 sick units, 12 units have become sick due to one or the other problem in the marketing area. Nau Nihal Singh has also observed that small scale industries have more marketing problems than the total of all other problems put together. He has mentioned that during field investigations in respect of management problems of 228 factory managers, the percentage of marketing problems was more than 45. But only a small proportion of managers/owners realised that they had a marketing problem.

The most common problem in this area is cut throat competition. Cases where small scale industrialists were required to compete with branded goods of big companies or with customers spread all over the country, marketing was found to be a difficult job. For example it was observed in the case of one dry distemper manufacturing unit that the unit was finding it difficult to sell its products on account of competition from other small scale industrial units to a certain extent but mainly from big multinational companies, which have established their brand names. The entrepreneur of this unit informed me that although dry distemper is a reserved item for exclusive manufacture in the small scale sector, big multinational companies are also allowed to manufacture the product, as per quotas given to them. The reservation of item has therefore not helped the unit. Similarly, a unit manufacturing stabilisers, which is a reserved item, complained that a multinational company like Philips is selling this item and has also released advertisements.

It may be mentioned here that out of 59 units, entrepreneurs of 30 units expressed an opinion that reservation of 872 items for exclusive manufacture in the small scale sector has not helped the SSI units. Entrepreneurs of 20 units

(*) Although, I have taken survey of 66 units, questionnaire was incomplete in the case of 6 units, and one unit was closed.

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said that they have no idea about the effect of reservation of items. Entrepreneurs of hardly 4 units said that the reservation of items has helped the small scale sector. Surprisingly in the case of one unit, although the unit was manufacturing a reserved item, the entrepreneur was not aware about reservation of that item. Similarly, entrepreneurs also expressed that they are not getting any help from government promoted institutions like SSILCs in marketing their products.

According to published data, in the year 1981-82, government stores purchases from the small scale sector amounted to Rs. 207.32 crores, as against government's total purchases of Rs. 1657.17 crores, of which the share of the large scale sector was Rs. 1449.85 crores. (Please see chart No.1 in Annexure A for previous year's purchases). It means that in the year 1981-82 the share of small scale sector in government purchases was hardly 12.5 per cent against 87.5 per cent share of the large scale sector. The Government is however making efforts to help the small scale sector. The Office of the DG & SD purchases about 400 items exclusively from the small sector. When I discussed the issue of help of government agencies in marketing products of small scale industries and benefit of the policy of price preference to small scale industries, most of the entrepreneurs were unhappy over the

implementation of these policies of the government. Hence it was felt that most of the small scale units have to develop the market and sell their products on their own.

Although the problem of competition was faced by many units, some units had the capacity to withstand such competition. For example during my survey, I observed that despite tough competition and demand recession, one unit manufacturing polythene bags, tubes etc. could survive. The reason of survival of this unit inspite of adverse environment was that the unit was one of the pioneer units in the line and it had enjoyed almost monopoly for a period of about 8-10 years. Besides, this unit had maintained quality of its products throughout and that is why it could survive despite tough competition.

The small scale sector is a delicenced sector and there is practically no restriction of capacity built up in any particular line. I have observed that whenever a particular line of industry has shown good prospects many entrepreneurs enter that line simultaneously. The result is obvious - too many units chase the limited market leading to sickness in many units.
For example the dye stuff industry in India is caught in a veritable mess of problems, mainly due to built-up of excess capacity in the sector. The dye stuff industry has over 30 units in the organised sector accounting for a little over 50 per cent of total production and a number of small units in the un-organised sector accounting for the rest. This has led to a surplus capacity totally out of tune with the demand from the user industries - textile being the major one.

Many such examples of excess capacity in the small scale sector can be given. But then as small scale is a licenced sector how can the government keep any control on the capacity build-up? Even in case of large scale industries, which is licenced sector, wherein the government restricts the capacity build-up, there are cases of built-up excess capacity than demand. Sometimes even when the official data shows that there is lot of unsatisfied demand for a particular product, in reality, the industries are running below capacity due to market conditions. So if such is the situation of even the licenced sector, what about small scale sector which is not only delicensed but where registration is also not compulsory and the number of unregistered units almost equals the registered units?

After understanding various types of problems faced by the small scale sector in the area of raw materials, finance and marketing and the inability of various government and semi-government institutions in solving these problems, I have formed an opinion that registration of a small scale unit should be made compulsory, which can indirectly solve some of the major problems of the small scale sector. The procedure of registration should be very simple and the officials of the directorate of industries and District Industries Centre should help entrepreneurs in registration of a unit. The main purpose of such registration will be to know the position regarding capacity built-up and raw material requirements. Based on the position regarding availability of raw materials, capacity built up and demand for particular product line, each District Industries Centre and State Directorate of Industries should prepare negative lists of industries where availability of raw materials is a problem or excess capacity has been built-up as compared to demand for that product. Such lists should be prepared every quarter and should be circulated to all nationalised banks. No doubt that this job is not an easy one and it will require lot of manpower and investment for development of such national information system on small scale industries. But with the introduction of computers, such type of information system can be developed. This information system will be of great
help to our national planning and for deciding proper industrial policy for healthy growth of industries.

According to latest reports the number of sick SSI units reached a staggering 81,647 at the end of June 1984\(^{(19)}\) and the tentative figures compiled during 1984 showed that the figure is almost touching the 1,00,000 mark.\(^{(20)}\) The total amount of bank and institutional credit locked up in sick industries is approaching Rs.5000 crore mark.\(^{(21)}\) Taking into consideration the magnitude of sickness it is necessary to arrest growth of sick units. If this can be done by introduction of information system with the help of sophisticated technology like Computers, then big investment on such projects will also be worthwhile.

Today mainly for the lack of information about the capabilities of this sector many large scale units are continuing to depend upon imports or are themselves producing components and intermediates that go to make their end products despite their production being uneconomical or managerially unwarranted.\(^{(22)}\) At the same time the small

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scale industrial units are not aware about the requirements of large scale units and there is information gap. The information system proposed above will reduce this information gap. It is said that in Japan such type of information system exists where by pressing a button entrepreneurs can get such information. The Computer systems are already introduced in our commercial banking (though it is just the beginning). It is felt that to start with, the commercial banks may be able to take a lead in the matter and can develop an information system for the use of banks. This may help the bank officials in appraising proposals of small scale units in a better way, particularly for the purpose of judging demand forecasts made in respect of products, on which cash flow statements are mainly dependent. Of course, under this system banks should be ready to share amongst them the information in respect of units financed by them. Recently Shri D.N.Ghosh, Chairman, State Bank of India has stressed the need of proper assessment of market demand by the banker before supporting any industrial venture. However it will not be possible for a banker to make proper assessment of demand, particularly in case of the small scale sector, unless adequate market information system is developed.

Out of 65 units, entrepreneurs of just 4 units expressed that they are facing problems in the area of management. However, in reality more units faced problem of inefficient management. These entrepreneurs failed to recognise that 'inefficient management' is at the root of most of the small business problems. There is wide or even universal agreement that the prime cause of failure is bad management. If the management is good, said several experts, only sheer bad luck can cause the collapse of the company. What is precisely meant by 'bad management'? According to John Argenti, the six structural defects of management are - one man rule, non-participating board, unbalanced top team, lack of management depth, weak finance function and combined chairman-chief executive.

During my survey the entrepreneur of one unit told me frankly that as he had no experience in the field of management, he committed a few mistakes in the initial period in the area of labour. This led to labour trouble in his unit for a period of about 12 months. Due to this, the unit has incurred heavy cash losses and he is finding it almost impossible to wipe out these losses. This confirmed the view expressed by State Bank team in 1975 that a mistake once made is difficult to rectify. Some units become sick due to failure of management to diversify at the right time and in developing a new product.
Many a time entrepreneurs of sick units blame government for their failure. But very often this is just an excuse, as every one knows that without warning tax rates are changed or credit is squeezed. Similarly, units divert funds to other activities and then if banks do not accept such diversion the units blame banks for failure. In reality it is the failure of management in the area of finance.

Plans may fail because of errors attributable to managers who have inadequate knowledge and experience. Long years of experience as an engineer, a sales manager, a production manager, may be of little avail in qualifying a man to hold the position as a general manager, as is required to be held by an entrepreneur.

However it will also be wrong to conclude that all failures are on account of inefficient management. Many times a unit becomes sick due to external factors also. For example large scale units, like 'Sahyadri Dye Stuffs', 'Kirloskar Tractors Ltd.', which were managed by professional managements like Mafatlals and Kirloskars became sick due to external factors.
Government Policy & other problems

Although the Government of India has expressed its policy of developing and promoting small scale industries, through Industrial Policy Resolutions and other statements, small scale entrepreneurs continue to face problems on account of government policies and procedures. Out of 65 units, entrepreneurs of 12 units faced problems on account of policies, procedures and decisions of government, its departments and agencies. Entrepreneurs faced various problems on account of Government policy. Entrepreneurs of two bidi units from the Food Industry expressed that as very little machinery is required for bidi industry, even the largest bidi manufacturer of the country can be classified as a SSI unit. But in reality these units are large scale units and it is very difficult for the real small scale units to compete with these units, in different areas, right from purchase of raw materials to advertising. Hence the entrepreneurs of these units felt that definition of small scale should be revised in case of bidi units and the new definition should be based on number of workers employed and sales turnover. Some entrepreneurs complained about restrictions on import of raw materials required by them. A few entrepreneurs, from the 'chemical industry' category complained that due to sales tax exemptions to units located in C & D Zone such units create unhealthy competition for
units located in cities. However such complaints/problems are of individual nature and it will not be proper to change the Government policy. Besides in such cases, the real problem was mushroom growth of units in a particular line of industry, due to which such unhealthy competition occurred.

The Chairman of Maharashtra State Plastic Industries Association has charged that due to change in the policy of the State Government of taking away benefits given earlier to plastic units in under developed areas, about 5000 units have become sick, and are on the way of closure. (24) But then why should industrial units survive on such concessions/subsidies offered by the government? Normally a unit's viability should not be affected on account of non-availability of a particular concession in duty or subsidy from the government. Such assistance should improve the profitability of units. Since mushroom growth of plastic units is known to me, I feel that the real problem is competition, but the entrepreneurs are blaming the Government.

However in certain cases the government, as it appears, act irrationally due to which viability of small scale units is affected. For example by allowing liberal imports of a

drug 'Chloramphenical', the indigenous small scale units, which are manufacturing this drug, would be completely thrown out of business.\(^{(25)}\) Similarly in the year 1981-82 a number of small scale drug units manufacturing ethambutol faced closure due to increase in customs duty on two basic inputs - D2 L aminobutanol and L Base aminodial.\(^{(26)}\) Even small drug units manufacturing 'Chloramphenicol' had faced problems in 1981-82 also due to increase in customs duty. Although cost of inputs was increased substantially the selling prices of these drugs were fixed by the government and no increase in selling price was allowed.

Surprisingly, though a lot of criticism is appearing in newspapers and journals about the problem of power-cut faced by small scale units, out of 65 sample units selected by me no entrepreneur stated power-cut as a problem. However when I asked a specific question about the effect of power-cut or erratic power-supply on capacity utilisation, entrepreneurs said that it had a marginal effect on the capacity utilisation.

A.C. Hazel and A.S. Reid have observed that in some cases small businessmen have very low net profit percentage.\(^{(27)}\)

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And with many of the expenses as fixed costs, the firm requires 10 months of the year to go for even achieving break-even sales. Under the circumstances, a company has to lose only one or two good customers, which in the past have contributed a tenth of the salarys and it will result into the company running into loss. And then, very little can be done about it suddenly, to stop incurring losses.

I observed that although no entrepreneur stated to me low profit margin as a problem area, 14 units or 21 percent of the units surveyed (excluding sick units) had profit margin of less than 2 percent. This can be seen from Table No.29 (Annexure A) wherein ratios of net profit to sales have been given. Due to rising costs of production, SSI units earn meagre profits, as a result of which they are not able to build up enough reserves, which are necessary for absorbing shocks received during ordinary course of business. Naturally due to low equity base and meagre reserves, a SSI unit is unable to stand vagaries of business and it becomes sick as soon as one or two things go wrong. Most of SSI units therefore do not have capacity and capability to stand up and survive against the wind of adversity.
Lastly, I would like to mention that as the survey was conducted in 1983-84, no entrepreneur complained about change in excise duty structure, which has been brought by the recent Union Budget 1986-87. Naturally, the problems faced by SSI entrepreneurs due to change in excise duty structure and Modvat, have not been covered.