CHAPTER XI

SUMMARY, MAIN FINDINGS AND CONCLUSIONS
Purpose and objectives of study

Small Scale Industries have been of special importance in India for various reasons - social, economic and political. These are labour intensive units and therefore they are especially important in a country like India where capital is in short supply and labour is in abundance. There has been a phenomenal increase in the number of units established in the small scale sector during the last few years. The total number of SSI units including the unregistered units has risen from 7.34 lakhs to 12.75 lakhs during the period 1978-79 to 1984-85. The value of their production was about Rs.50,520 crores in 1984-85 being about 50 per cent of the country's total industrial production. In several other countries also a significant part of manufacturing activity takes place in small and medium scale enterprises.

Although the SSI Sector in India has generally fared quite well, of late there have been some disturbing reports of growing sickness in numerous SSI units. Industrial sickness has become a growing phenomenon in our country causing much anxiety to the lending agencies, the government and
the SSI units themselves. I therefore selected "Problems of Small Scale Industries, with special reference to selected units in Pune Metropolitan Area" as the subject of my research. Although a variety of general factors have been identified as contributing to the indifferent performance of small industrial units, it is felt that in generalising, it is likely that one may miss some of the root causes of failure. It is therefore necessary to make a systematic study of this problem.

With a view to finding out the real causes of failure/sickness and also to suggesting some remedies for avoiding sickness by taking due precautions and timely measures, I decided to study the working of a few SSI Units. The principal objective of the study was to collect data about the problems faced by selected entrepreneurs during inception as well as operational phases.

On the basis of my own experience and study as a bank officer I have developed the following hypothesis:

i) Shortage of working capital is generally not the major cause of sickness but is symptomatic of some other inadequacies like inefficient marketing, inefficient management etc.
ii) Marketing is the major problem faced by small scale entrepreneurs. In the marketing area severe competition, recession, wrong choice of product line are some of the major problems, which ultimately make a unit sick.

iii) Apart from the marketing problem, other problems like labour troubles, mismanagement etc. also affect the viability of a unit. But, the percentage of units becoming sick due to these reasons is smaller than those affected by marketing problems.

My study showed that the above hypothesis with which I started are true in actual practice.

Definition of SSI

'Small Scale Industry' is a generic term indicating different types of industries belonging to different sizes, categories and organisational patterns. However, the phrase 'Small Industry' is a misnomer and the adjective - 'Small or Small Scale' should be attached to the word "Enterprise" rather than to "Industry". The definition of a small firm or enterprise varies from one country to another, and depends on the phase of a country's economic development and its prevailing social conditions. Even within one country, there may be more than one definition of a small...
firm adopted by different institutions or agencies (involved in helping or dealing with small enterprises) to suit their purposes or functions. In a developed country like U.S.A., although the SBA (Small Business Administration) is considered the agency for U.S. small business interests, its definitions are not uniformly accepted by state and federal agencies.

It was observed that although the definition of SSI differs from country to country, there are a few similarities in most of the definitions i.e. they are either based on the quantum of investment in 'fixed assets' or on the number of persons employed or both. In India, the definition of SSI has been changing periodically and the upper financial limit has been raised so that the cost of plant and machinery fixed at one time does not hit small scale units. Thus the latest budget of 1985-86 has further enlarged the scope of the definition and today a unit having an investment in plant and machinery upto Rs.35.00 lakhs (as against the previous amount of Rs.20 lakhs) has been defined as a small scale unit and the investment limit for an ancillary industry has been raised to Rs.45 lakhs from the earlier amount of Rs.25 lakhs.
Industrial Policy

It is clear from various industrial policy statements of Government of India from 1948 to 1980 that the Government have been pursuing a policy of promoting, assisting and protecting small industry for long. The Industrial Policy Resolution of 1956 stated the following points in favour of SSI.

"They provide immediate large scale employment, they offer a method of ensuring a more equitable distribution of the national income and they facilitate an effective mobilisation of resources of capital and skill which might otherwise remain unutilised. Some of the problems that unplanned urbanisation tends to create will be avoided by the establishment of small centres of industrial production all over the country". The resolution also emphasised the need to improve the competitive strength of small scale producers. Consistent with the objectives of the Industrial Policy Resolution of 1956, a comprehensive programme for the development of SSI for implementation was drawn up. The successive Five Year Plans provided the following outlays on small scale sector:

[Table]

- 277 -
### Five Year Plan Outlays on Small Scale Sector

(Re. in crores)

<table>
<thead>
<tr>
<th>Plan Period</th>
<th>Outlay (Combined for SSI and Industrial Estates)</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Plan 1951-56</td>
<td>Targets: 5.50</td>
</tr>
<tr>
<td>Second Plan 1956-61</td>
<td>61.00</td>
</tr>
<tr>
<td>Third Plan 1961-66</td>
<td>114.80</td>
</tr>
<tr>
<td>Annual Plan 1966-69</td>
<td>-</td>
</tr>
<tr>
<td>Fourth Plan 1969-74</td>
<td>123.33</td>
</tr>
<tr>
<td>Fifth Plan 1974-79</td>
<td>241.28</td>
</tr>
<tr>
<td>Annual Plan 1979-80</td>
<td>-</td>
</tr>
<tr>
<td>Sixth Plan 1980-85</td>
<td>616.10</td>
</tr>
<tr>
<td>Seventh Plan 1985-90</td>
<td>1120.51</td>
</tr>
</tbody>
</table>

The main thrust of the Industrial Policy Resolution of 1977 was on effective promotion of cottage and small industries widely dispersed in rural areas and small towns. This Resolution emphasised that whatever can be produced by small and cottage industries must only be so produced. The number of products reserved for the small scale sector was increased from 180 to 500. The Government also decided to shift the focal points of development for small scale and cottage industries to district head-quarters from big...
cities and state capitals. It was also decided to set up
'District Industries Centres' one in each district for
dealing with all the requirements of SSI units under one
roof.

The Industrial Policy Resolution of 1980 emphasised
the need for intensifying the promotion of small industries,
and revised the definition of small scale industry by rais­
ing the ceiling on investment in plant and machinery to
Rs.20.00 lakhs and to Rs.25.00 lakhs in the case of an
ancillary unit. The limit of investment in the case of tiny
units was increased from Rs.1.00 lakh to Rs.2.00 lakhs. The
Government also took up several measures to implement the
various policy decisions. Recently the definition of SSI
has been revised by raising the ceiling on investment in
plant and machinery to Rs.35 lakhs and to Rs.45 lakhs in
the case of an ancillary unit.

Main Recommendations of various Committees/Study Groups

With a view to enabling the Government of India to
formulate a proper industrial policy, which would boost
the growth of SSI units in the country under the five year
plans and with a view to suggesting certain measures for
solving their problems different Study Groups/Committees
were appointed from time to time. The International Perspective Planning Team (sponsored by the Ford Foundation) recommended the establishment of four multi-purpose institutes of technology in the country and National Small Industries Corporation (NSIC). The Japanese Delegation on SSI (1959) suggested to establish a Credit Guarantee System for smooth and easy flow of credit to SSI. It also recommended that an independent State Small Industries Corporation (SSIC) should be established in each state and NSIC should do the job of overall planning and control.

The Committee appointed under the Chairmanship of Shri KNR Ramanujam (1972) suggested remedies to solve the problem of delayed payments to small scale industries. However, as the problem of delayed payments could not be solved, the Working Group appointed under Chairmanship of Shri K.B.Chore (1979) to review the system of cash credit recommended that banks should insist on the large industries to maintain control accounts in their books to give precise data regarding their dues to the small units and introduced the concept of bills acceptance (drawee bills) for bills of SSI units.

The High Powered Committee (1976) felt that a low equity base has an adverse impact on the well-being of the units and recommended that a National Equity Fund should be set up to help SSI units. Recently the Study Group appointed under
the Chairmanship of Dr. P.D. Ojha (1985) suggested to set up a Special Soft Loan Assistance Fund (SLAF) for rehabilitation of sick SSI units. It is recommended that the SLAF will be administered by IDBI and the fund (SLAF) should provide both direct equity type loans to sick units and also grant refinance to credit institutions.

Various concessions/incentives

In order to increase the competitive strength of small scale industries and to enable them to overcome their weaknesses, the Government of India has provided/offered various concessions, incentives/assistance to SSI units through different institutions. Over the years, a large number of items have been reserved for exclusive manufacture in the small scale sector and these items were 872 as at the end of March 1984. Credit facilities at concessional rates are also given to SSI units by commercial banks and State Financial Corporations. In the case of SSI units (which are situated in towns having population of less than 50000) whose requirements of loans are upto Rs.2.00 lakhs and below, the Government has offered interest subsidy for reducing the burden of interest on SSI units. Seed capital/margin money assistance is also provided, as loan component by District Industries Centres and State Financial Corporations (SFCs) and State Industrial Development Corporations (SIDCs/SIICs). Besides with a view to facilitating SSI
entrepreneurs in setting up their industries at minimum initial cost, readymade sheds/accommodations are provided by the State Industrial Development Corporations.

Institutions like NSIC and State Industrial Development Corporations (SSIDCs) extend their helping hand to SSI units for getting supplies of scarce raw materials as well as in marketing their products. The SSI units also get price preference up to 15% over the lowest quotation received from a large scale unit for the same item. The District Industries Centres (DICs) are providing various services and support to SSI Units like preparation of project report, registration of unit as SSI, registration with NSIC etc., under a single roof. The Small Industries Development Organisation (SIDO) has established a network of 26 Small Industries Service Institutes for providing technical and managerial support to SSI entrepreneurs. The Small Industry Extension Training Institute (SIET) set up by the Government of India in 1962 at Hyderabad gives training in industrial management and other aspects of small industries development. Certain concessions/incentives are available to SSI units in respect of payment of income tax and excise duty.
Research Methodology

As the data available regarding small scale industries are not adequate it was necessary for me to undertake a survey to collect certain basic data such as capital, employment, sales etc. and interpret the data so as to throw light on the various problems faced by SSI units and to know the health of these units. For the purpose of this study, the scope of the survey was restricted to SSI units in Pune Metropolitan Area. It was observed by me that according to the Industrial and Commercial Directory of Pune published by the Mahratta Chamber of Commerce and Industries, there were about 2515 industrial units comprising both small, medium and large scale industries in Pune Metropolitan Area as at the end of 1977. Considering the time available to me, and the difficulties envisaged in the collection of data, it was felt by me that it was not possible to collect data from all these 2515 units, nor was it necessary to do so for my purpose as it was not my intention to present data of all units of the area.

As I had decided to study only middle sized units among SSI units (i.e. those having a capital investment in the range of Rs.2.01 lakhs to Rs.10.00 lakhs) I selected units for the purpose of my study, based on the criterion of total annual production of the unit for the year, from the middle
sized units, and ultimately 66 units were selected which accounted for more than 50 per cent of industrial production in each category of industry such as basic metals and metal products, light engineering, paper products, electronics etc.

The basic data for this study was collected through field work and with the help of a questionnaire. I was required to visit the units several times and it was only in a few cases that an interview was granted straight way and the entire questionnaire was completely covered. It may be mentioned here that I had selected 66 units with certain objectives and by making some analysis. I therefore made maximum efforts to collect data from these sample units only. However in the case of units, where the entrepreneur straightway declined to give me any data/information about the unit, I had no other choice but to select some alternative unit from the list of units with me on the criterion of production and suitability.

As mentioned earlier the principal objective of the study was to collect data about problems faced by the entrepreneurs during the inception and operational phase. I also wanted to assess the role played by various Government and Semi-Government agencies/institutions, in extending assistance to SSI units and to find out the real reasons for
idle capacity as also the real causes of sickness of SSI units. For this purpose I tried to translate my thinking into a questionnaire the replies to which would give me the data on these aspects.

Case Studies

Apart from collecting data on 66 SSI units, 6 case studies were undertaken to analyse the problems of small scale industries. The first case study is in respect of a unit manufacturing paper mill machinery and its components, which became sick mainly on account of (i) lack of demand for its products due to cut throat competition and (ii) lack of proper production and financial planning by the unit.

As regards case study No.2 of a company manufacturing various types of paints, distemper etc. the unit has become sick due to excess built-up of capacity due to mushroom growth of small units manufacturing the same product. The case study emphasises the need for a proper information system by banks, which will avoid such mushroom growth of units. The third case is of an engineering unit undertaking job orders, which became sick mainly on account of diversion of funds to other business which unfortunately did not succeed.
The fourth case study is in respect of a unit which has become sick on account of denial of finance by the banker, when the company was in difficulties and the unit was viable. In this case there was lack of trust between the unit and the bank.

The fifth case study shows as to how a unit can become sick due to faulty project planning and delay in implementation of the project. The last case study is a success story of a unit, which could become a good healthy unit, despite faulty project planning and financial planning mainly on account of excellent support by the banker and marketing strength of the company.

**Industrial Sickness**

According to the latest Annual Report of Reserve Bank of India 1984-85 as at the end of December 1984, there were 92,015 sick small scale units, involving bank finance worth Rs. 879 crores. According to available data, there were in all about 12.75 lakhs SSI units (both registered and unregistered) in the country at the end of 1984-85. This means that 7.21 per cent of the units were sick.
Reserve Bank of India has defined a sick unit as under:

"A sick unit is that which has incurred a cash loss for one year and in the judgement of the bank, is likely to continue incurring cash losses for the current year as well as in the following year and the unit has an imbalance in its financial structure, such as current ratio is less than 1:1 and there is a worsening trend in debt-equity ratio".

Besides various authorities/committees have defined sickness in different ways.

Sickness does not set in overnight. It is a gradual process with distinct stages. An entrepreneur of SSI unit or his banker can get various signals or symptoms of sickness such as shortage of working capital, under-utilisation of capacity, declining sales, excess inventories, low profitability, adverse current ratio, debt-equity ratio etc. Once danger signals are thrown up in the case of a borrower and signs of difficulty emerge, speedy action is called for on the part of the banker and timely and firm handling are of essence.

Causes of sickness are innumerable. Different factors contribute to sickness of industrial units either singly
on in conjunction with other factors. Some units become sick due to faulty project planning and/or due to difficulties faced in the course of implementation of projects. It has been observed that delays and cost overruns are crucial factors responsible for making several units sick.

The causes of sickness in the case of existing units or units under regular production can be classified into four broad areas - (i) production (ii) marketing (iii) management (iv) finance. In production area, a unit can become sick due to various reasons such as poor quality of raw materials used, high material wastage, power shortage, raw material shortage, deteriorating labour relations etc. As regards marketing, various causes like recession in the industry, severe competition, weak marketing organisation, poor marketing effort can make a unit sick. In management area, a unit can become sick due to one man rule, lack of planning and control, dishonesty, poor record keeping, unplanned diversification or lack of diversification etc. As regards finance area, the causes or factors which make a unit sick are weak equity base, inadequate finance from banks, delayed payments by clients, diversion of funds etc.
Main Findings and Conclusions

I am aware that since I have taken a survey of only 66 SSI units in and around Pune Metropolitan City, it may not be proper to claim that my findings are universally (or for that matter for the entire country) applicable. However, if the findings of my study are considered along with other material and data published from time to time, it will be noticed that my findings would be applicable to the majority of small scale industries in the country.

The following are the main findings and conclusions of my study:

(1) **Type of establishment** - The typical forms of organisation dominating the small scale sector appear to be the partnership firm and private limited company. 90.9 percent of the units surveyed belonged to these two forms.

(2) **Age of the units** - Out of the total 66 units surveyed 57.3 percent units were more than 15 years old, 28.8 percent of units were established about 10-15 years back. However very few units showed the normal growth pattern to become medium sector units. The reasons behind slow growth of small scale units appear to be two - (a) Negative effect of availability of certain incentives/concessions to the small scale sector (b) underutilisation of even existing capacity due to lack of demand or some other marketing problem/s.
(3) **Age of the entrepreneur** - The study showed that there is no correlation between efficient management of the unit and age of the entrepreneur.

(4) **Average working hours of the Entrepreneur** - It was observed that a large number of entrepreneurs i.e. 53 percent work for about 8-11 hours or even more than 11 hours, every day. Even in the case of partnership firms, the managing partner is required to work for about 8-11 hours per day, as in many cases other partners are sleeping partners, admitted mainly to take advantage of tax benefits. But in the case of firms where there are 2 or 3 working partners, working hours are reduced to 6-8 hours per day.

(5) **Reasons for starting the unit** - The most common reason stated by entrepreneurs for starting the unit is that they were previously in allied trade. However one important observation is that the entry of entrepreneurs into the business is not much influenced by various incentives offered by Government/Semi-Government institutions or other agencies such as banks.

(6) **Occupancy of land and building** - My survey showed that about 65 per cent of the units owned the land and buildings, while 35 percent of the units used rented or leased premises.
(7) **Average number of workers employed** - The survey showed that the average number of workers employed per unit varied from industry to industry and even in one category of industry there was a high measure of dispersion in respect of the number of workers employed as compared to the average number of workers in the industry, for example the 'light engineering' industry employed an average 31 skilled employees, while 'basic metal & metal products' employed 10 as against the overall average of 55 skilled workers per unit.

(8) **Capital-output Ratios** - Capital-output ratios of the small scale industrial units are distinctly better than medium and large scale industries. Therefore, the better capital-output ratio of small enterprises over large scale industries, supports the argument that the small enterprises utilise the resources more efficiently.

Average capital-output ratios for different industries, in respect of the units surveyed by me are given below.

<table>
<thead>
<tr>
<th>Type of Industry</th>
<th>Fixed Capital to Gross Output</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Paper &amp; Paper Products</td>
<td>0.19 : 1</td>
</tr>
<tr>
<td>2) Basic Metal &amp; Metal Products</td>
<td>0.09 : 1</td>
</tr>
<tr>
<td>3) Electronics</td>
<td>0.33 : 1</td>
</tr>
</tbody>
</table>
Capital-output Ratios

<table>
<thead>
<tr>
<th>Type of Industry</th>
<th>Fixed Capital to Gross Output</th>
</tr>
</thead>
<tbody>
<tr>
<td>4) Light Engineering</td>
<td>0.20 : 1</td>
</tr>
<tr>
<td>5) Vehicle &amp; Vehicle Parts</td>
<td>0.07 : 1</td>
</tr>
<tr>
<td>6) Chemicals &amp; Chemical Products</td>
<td>0.14 : 1</td>
</tr>
<tr>
<td>7) Food &amp; Food Products</td>
<td>0.10 : 1</td>
</tr>
<tr>
<td>8) Cement &amp; Cement Products</td>
<td>0.04 : 1</td>
</tr>
<tr>
<td>9) Textiles</td>
<td>0.20 : 1</td>
</tr>
</tbody>
</table>

N.B. - Average capital output ratio for medium and large scale industry (according to ASI Report 1980-81) was 0.62 : 1

(9) Capital per worker - My study confirmed the observation of Eugene Staley and Richard Morse that capital-labour ratio varied from industry to industry, even in the small scale sector. According to my study the average amount of gross capital employed per worker was Rs.12,520/- (as against Rs.9,966/- as per ASI Report) in comparison with average fixed capital per employee of Rs.57,886/- in respect of medium and large scale sector. This indicated that small scale industries are more employment-oriented as compared to medium and large scale industries.
(10) **Source of capital** - In most of the units surveyed by me, it was observed that the entrepreneurs have raised their equity capital (own funds) from their past savings or from unsecured loans/deposits from their friends and relatives. Some earlier researchers had commented in the past (i.e. Mr. P.N. Dhar in 1955-56) that the role played by banks as source of finance to small scale industries was insignificant. However I have found that the position has changed now and almost all the units surveyed by me were financed by commercial banks for their working capital requirements. Published data supports my finding.

(11) **Capacity utilisation** - Industry-wise details of capacity utilisation /reasons of under-utilisation, have been given in Table Nos.19 & 20 (See Annexure A).

It was observed by me that 30 per cent of the units were working below 50 per cent of their production capacity, 22.58 per cent of the units between 51-60 percent, 35 percent of the units between 61 to 80 percent and only 9.6 percent of the units were working between 81 to 100 percent of their production capacity.

As regards the causes of under-utilisation of capacity, although many factors were mentioned by the entrepreneurs, the more important among them were shortage of raw materials,
inadequate finance and lack of demand for the product. In many cases a combination of two or more of such factors contributed to underutilisation of capacity. However the most dominant factor responsible for low capacity utilisation was lack of demand for the product.

(12) Organisation structure and managerial expertise - Out of the 66 units surveyed by me entrepreneurs of hardly 7 units or 10.6 percent of the units could give me some sort of organisational structure of their unit. In the case of the rest of the units (i.e. about 89.4 percent of the units) it appears that no formal organisational structure was created and these firms or even some of the private limited companies were more or less one-man shows. It was observed that in the case of 14 units, although a formal organisation as such was not structured, there was work distribution amongst partners and there was some degree of delegation to the subordinates, who were styled as 'Managers' by the entrepreneurs.

In the case of engineering industry, it was observed that out of 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 entrepreneurs.
Problem of raw materials - It was observed that out of 65 units (information in the case of one unit was not available), 17 units (26.15 percent) faced the problem of procurement of right quality of raw materials at reasonable prices. Most of the entrepreneurs complained that the Government sponsored institutions like SSIDCs are of little help to the small scale sector in procurement of quality raw materials at reasonable rates and that small entrepreneurs are required to purchase raw materials from the open market. At the same time no unit appeared to have faced any serious threat to its survival due to the problem of raw material. As a result of non-availability of scarce raw materials, small units do not necessarily work below the economic level, as they procure such materials from the open market, though at a premium.

Taking into consideration the fact that the problem of raw materials affecting viability of small scale units is not that acute and that the existing system of allocation of quotes of raw materials by SSIDCs has failed to solve the problem, I have recommended that SSIDCs need not be entrusted with the job of distribution of raw materials to small scale units. Even some of the SSIDCs are themselves complaining that producers do not supply them the scarce raw materials to their full requirements. I have therefore recommended that the system of allocation of raw materials
to the small scale sector be totally abolished and the industrial units should purchase raw materials from open market. But as a compensation, the small scale sector should be entitled for some subsidy, proportionate to utilisation of certain scarce raw materials. The rates of such subsidy can be revised by the Government from time to time or even subsidy can be abolished, depending upon market situation. This subsidy would remove the imbalance or reduce the benefits received by the large scale industries over small scale sector, on account of bulk purchases.

I have also recommended that while allowing imports of certain raw materials, the Government should take a decision based on the affects of such imports on the viability of units producing the raw materials which would be imported.

(14) Problems of finance - 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 for the product, or competition or labour problem 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. But in all other cases, although finance was stated by the entrepreneurs to be a problem area, I found that it was not so severe as to affect the viability of the units.
About 66 percent of the entrepreneurs expressed that the credit facilities available from banks were adequate, whereas 34 percent of them expressed that bank finance was not adequate to meet their requirements. About 61 percent of the entrepreneurs said that there was no delay or not much delay in getting credit decisions from their bankers, but 39 percent of them stated that there was delay in getting credit decisions. The most common reason put forth by them for such delay on the part of banks was their organisational set-up having three or four tiers. As regards the complaint regarding inadequacy of bank finance, it was observed by me that while in some cases, the complaint was genuine, in many cases the facts were exaggerated and not true.

It was observed that in most of the cases the problem of finance was coupled with the problem of delayed payments by the buyers. Although only 11 units faced the problem in the area of bank finance, 21 units or 32 percent of the units complained about the problem of delayed payments. The problem of delayed payments becomes serious affecting viability of units, when there is unhealthy competition amongst small scale units, or when there is a buyer's market due to mushroom growth of small scale industries. The main solution to the problem of delayed payments would be to avoid mushroom growth of small enterprises, in a particular line of industry.
with the help of development of strong data base regarding market. The problem cannot be solved by introducing legislation about delayed payments. Although the law about delayed payments was designed in Japan, it has never been an unqualified success.

(15) Labour problems - 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. Amongst all categories of industry, labour problem was more acute in engineering industry, where 36 percent of the units had labour problems.

It is normally felt that workers would consider in their own interest to make efforts to keep their units alive and prevent closure, particularly in the case of sick units. However, my study shows that labour does not give any cooperation to entrepreneurs in times of difficulties. Even timely closure of a unit is not possible due to lack of funds which are required for making payments to workers. It is therefore necessary even to plan closure at right time.

(16) Marketing - It was observed by me that out of 65 units, 45 units (69 percent) faced marketing problems. In marketing area 28 units or 43 percent of the units faced the problem
of competition from other units. Although 45 units or 69 per cent of the units faced marketing problems, the problem was quite serious in 12 units affecting their survival.

51 per cent of the entrepreneurs stated that reservation of 872 items for exclusive manufacture in the small scale sector has not helped them in solving their marketing problems. 33 percent of the entrepreneurs did not have any idea about the effect of reservation on the performance of small scale sector.

With a view to solving the problem of mushroom growth of small units in a particular line of industry, which ultimately creates marketing problems, I have recommended that registration of a small scale unit should be made compulsory. The main purpose of such registration will be to assess the position regarding capacity build-up in different lines of industry and input requirements. Based on the position regarding availability of inputs, capacity built-up, and market demand, each District Industries Centre (DIC) should prepare a negative list. For this purpose, a new data base should be developed with the help of country-wide net work of computers, interconnected through satellite. This information system will be of great help to our national planners and for formulating proper industrial policy for healthy growth of industries and for avoidance of industrial sickness in alarming proportions.
(17) Problems of Management - Out of 65 units, entrepreneurs of just 4 units expressed that they were facing problems in the area of management. However in reality, several more units faced the problem of inefficient management.

(18) Other problems - Although the Government has expressed its policy of developing and promoting small scale industries out of 65 units, entrepreneurs of 12 units (18 per cent) faced problems on account of policies, procedures and decisions of the Government, its departments and agencies. Though a lot of criticism is appearing in newspapers and journals about the problem of power-cut, during the survey surprisingly no entrepreneur stated to me power-cut as a serious problem. Entrepreneurs said that power-cut had only marginal effect on capacity utilisation of a unit. This may be on account of good power position in Maharashtra State or the area of my study.

Besides although no entrepreneur mentioned low profitability as a problem, it was observed by me that low profit margin also posed threat to the survival of a unit in the long run.
(19) **Magnitude of sickness** - During my survey, it was observed that out of 66 units, 15 units (22.72 percent) were sick, as against the national average of 7.21 percent. The percentage of sick units was maximum in the 'Chemicals and Chemical Products' industry, wherein 4 units out of 9 units, or 44.4 percent of the units were found to be sick.

In the case of 'Light Engineering' industry and 'Basic Metal & Metal Products' category the incidence of sickness was as high as 27.29 percent and 25 percent respectively.

But in the case of 'Electronics' and 'Food & Food Products' industry not a single unit was found to be sick.

(20) **Symptoms of sickness** - Sickness does not set in overnight. It is a gradual process with distinct stages. An entrepreneur of a sick unit and his banker can get various symptoms or signals of sickness. Some researchers like Prof. Altman, Miller, Beaver and L.C.Gupta have tried to develop certain models for predicting failure or sickness, based on ratio analysis. However in my opinion such models may not be of much practical use in the case of small scale industries, for predicting sickness, due to various reasons.

(21) **Faulty Project Planning** - A unit can become sick due to faulty project planning and cost and time overruns, if it fails on the marketing side also either substantially, or marginally, when profit margin is low. I have therefore
recommended that project reports should be prepared with utmost care and adequate provision should be made in the project cost towards contingencies and interest on term loans during construction period. A banker should also carefully appraise every project.

(22) Causes of Sickness

It was observed that out of 15 sick units, 12 units (80 percent) had become sick either due to a single reason of marketing problem or due to a combination of problems of marketing with some other problem in areas like finance, labour etc. The most dominant cause of sickness was marketing. This was contrary to the common belief and criticism that small units are becoming sick mainly due to shortage of funds i.e. bank finance.

Out of 12 sick units, entrepreneurs of 10 units expressed that they were facing shortage of working capital. But on scrutiny of relevant information, it was observed that except in the case of one unit, all other units faced shortage of working capital due to low sales turnover. It was observed that shortage of working capital was not the cause, but the effect of sickness.
It was observed that entrepreneurs did not plan for financial emergencies. Most small firms did not appear to have any sort of financial planning and they tried to manage things on a day-to-day basis. I therefore recommend that small entrepreneurs should do financial planning and also planning for financial emergencies as suggested by Gordon Donaldson.

An analysis of 30 successful firms showed that the right choice of product line, timely innovations in the product to suit market conditions, favourable market and marketing capabilities and set-up, appear to be the most dominant reasons contributing to the success of any industrial unit. Other important factors are quality of products, diverse experience of partners/directors, and proper management of the unit.

(23) Viability depends on Marketability

I feel that so far in India, the problem of sickness has been tackled primarily from financial point of view. However my study of 66 small industrial units shows that viability of a unit depends mainly on marketability of its
products and marketing capabilities of the entrepreneur. Therefore while taking a decision regarding nursing of a sick unit, a banker should try to make proper assessment of market demand. It should be noted that any attempt to rehabilitate a unit would fail, unless proper assessment about its marketing side is made.

I have prepared a check-list for the use of entrepreneurs which will be helpful in prevention and cure of sickness, at least to some extent. The check-list can be seen at Annexure B.