CHAPTER 1

INTRODUCTION AND RESEARCH DESIGN
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1.1 INTRODUCTION

Small business has played a vital role in the history. The first known\(^1\) piece of writing on describing banker’s loaned money on interest appeared more than 4000 years ago. Since then, small business persons have spent countless hours in creating products and services to benefit the customers. Small business flourished in almost all ancient cultures. The Arabs, Babylonians, Egyptians, Jews, Greeks, Phoenicians and Romans excelled at it. It was largely through small business that civilization spread to all four corners to the world. The need for revising the definition of small-scale industries and broadening the concept for including medium scale industries was rightly recognized due to the concept of globalization. The firms have to expand their size and adopt new technologies. Small and Medium Enterprises, particularly the tiny segment of the small enterprises have inadequate access to finance due to lack of financial information and non-formal business practices. Small and Medium Enterprises, also lack access to private equity and venture capital and have a very limited access to secondary markets. Under these circumstances, a study on bank finance and SSI requires special significance.

1.2 IMPORTANCE OF THE STUDY

During 1980's and 1990's small business began to enjoy more esteem and prestige than ever before mainly due to its ability to invent new products and to create new jobs. Even as recession gripped in the late 1980's and early 1990's the number of small business rose. This sector also plays two important roles as producers of consumer goods and absorbers of surplus labour thereby addressing problems of poverty and unemployment.

Small Scale Industries also have a merit of being agents that help in mitigating regional imbalances, act as a nursery for entrepreneurship and facilitate mobilization of local resources and skills, which might have otherwise remained unutilized. According to Bolton committee of inquiry into small firms in the United Kingdom, a firm which has a relatively small share of market is managed by its owners in a personalized way and does not form part of a large enterprise called 'small'.

Small Scale Industries contribute more balanced distribution of income and wealth and more employment generation at an advantageous cost. The Small Scale Industry has to move from a regime of protective environment to a competitive environment. India’s vision of emerging as an economic power in the 21st century can be realized through the promotion and development of Small Scale Industries. Throughout the historical process of industrial management, the Small Scale Industry sector has contributed significantly. Since independence, the Government has
formulated a total of six Industrial Policy Resolutions or Statements to promote industrial growth in the country.

The number of registered SSI units which went up from 16,000 in 1950 to 36,000 units in 1961 and to 33.7 lakh units in 2000-2001. During the last decade alone, the small-scale sector has progressed from the production of simple consumer goods to the manufacture of many sophisticated and precision products like electronic control systems, microwave components, electro-medical equipments, T.V. sets, etc.

At national level, all the SSI units permanently registered up to 31-3-2001 numbering 22,62,401 were surveyed on complete enumeration basis, of which 13,74,974 units (61 %) were found to be working and 8,87,427 units (39 %) were found to be closed. Of the 13,74,974 working units, 9,01,291 were SSIs and 4,73,683 were Small Service Sectors Business Enterprises. Thus, the proportion of SSIs was 65.55 per cent. About 5.08 per cent of the SSI units were ancillary units.

Out of unregistered SSI units i.e. 9, 94,357 villages and urban blocks, 19,579 villages and urban blocks were surveyed to identify the units of unregistered SSI sector. The size of the unregistered SSI sector is estimated to be 91,46,216. Of these, only 38.75 per cent were SSIs and the rest were Small Service Sectors Business Enterprises. The reasons for non-registration were elicited in the Third Census. Interestingly, 53.13 per cent

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3 Third All India Census of Small Scale Industries Report, 2001-02, p.159
of the units informed that they were not aware of the provision for registration, while 39.86 per cent of the units indicated that they were not interested. Maximum number of unregistered SSI units (16.89 %) was located in Uttar Pradesh.

At national level, the size of the total SSI sector is estimated to be over one crore (1,05,21,190). About 42.26 per cent of these units were SSIs and the rest was Small Service Sectors Business Enterprises. The number of ancillaries among SSIs was 2.98 per cent. About 47.22 per cent of the units were located in Uttar Pradesh, Andhra Pradesh, Maharashtra, Madhya Pradesh and Tamil Nadu. The number of women employees is of the order of 13.31 per cent.

Sickness has been identified through the latest definition of RBI given by Kohli committee and incipient sickness is identified in terms of continuous decline in gross output. Sickness in the Total SSI sector is of the order of one per cent, whereas in the registered and unregistered SSI sectors it is 3.38 per cent and 0.64 per cent respectively. The maximum numbers of sick units are located in West Bengal, Kerala, Maharashtra, Karnataka and Andhra Pradesh. About 59.53 per cent of the sick units are located in these five States.

Small Scale Industries made an early start in Tamil Nadu with the Government stepping in to create major industrial estates at Guindy.

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Ambattur in Chennai. The distribution of Small Scale Industries to employment generation is next only to Agricultural and allied sectors. The nodal agency for implementing programmes for the development of Small Scale or Tiny Sector Industries is the State Directorate of Industries and Commerce. The District Industries Centers are functioning in 29 Districts in Tamil Nadu except Chennai District where Regional Joint Directorate renders all help to the prospective entrepreneurs for starting Small, Rural and Tiny industries.

The Tamil Nadu Small Industries Development Corporation Ltd, (TANSIDCO), a Government of Tamil Nadu undertaking has been established with the specific objective of promoting and developing Industrial Estates for Small Scale Industries in the State and thus to accelerate the growth of SSI related infrastructure in backward and under developed areas of the State. SIDCO has developed 43 industrial estates and it manages 35 Government Industrial Estates on agency terms. Towards formation of new Industrial Estates, SIDCO has availed the assistance under the IID scheme from the Government of India to cover six industrial estates.

The Government has been following a policy of reservation of items for exclusive development in the small-scale sectors. Among the 1972 census of Small-Scale Industrial units, there were 177 items in the reserved

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list. By 1983, the reserved list included 837 items for exclusive production in the small-scale sector. These units produce over 8,000 commodities.

Village and Small Industry Sectors 7 have become prominent players in the total manufacturing sectors of the Country. The State of Tamil Nadu with a vibrant SSI Sector has carved out a niche for itself among other States. The importance of these sectors stems from the fact that they make a substantial contribution to the State Domestic Product (SDP) and serve as a large employment provider next only to agriculture, facilitating equitable distribution of national wealth, reduction of inter and intra regional disparities, accentuating the rural mobilization and utilization of resources and by exploiting the rural skills preventing exodus to urban agglomerations.

The nodal agency for implementing programmes for the development of Small Scale or Tiny Sector Industries is the State Directorate of Industries and Commerce. It has been entrusted with the responsibility to register small scale industrial units, to assist them under the 'Single Window' system to get statutory approvals and clearances, providing testing facilities for electrical, electronic and chemical industries, etc. Entrepreneur Development Programmes are being conducted by the Department of Industries and Commerce with a view to motivating first generation Entrepreneurs to take up self-employment ventures. In order to encourage the small scale sector, which has tremendous employment

7 op. cit., p.188.
generation potential, the scheme of providing capital subsidy assistance to small-scale industries established in industrially backward areas of the State is to be revived.

TANSIDCO \(^8\) has established a Women Industrial Park in an extent of 51.70 acres in the first phase of development of Vazhavanthankottai in Trichy District during 2002-2003. It has proposed to develop another 83.55 acres of land at Vazhavanthankottai at a cost of Rs.125 lakh as a Phase II development for the benefit of Ancillary units catering to Bharat Heavy Electrical Limited. In addition to the above, action is being pursued to establish Industrial Estates in Madurai (Women Industrial Park) and Theni, Vinnamangalam and Mayiladuthurai (Techno Parks).

Tamil Nadu is the only state in the country, which has a complete textile value chain. Of the 1787 organized textile mills in the country, Tamil Nadu accounts for 834 units. Of the All India spinning capacity of 34.03 million spindles, Tamil Nadu alone has 12.91 million (38%). These mills together provide direct employment to about 2.99 lakh workers. Besides, they provide indirect employment to several lakh of workers in handloom, power loom, garment, hosiery and processing units. Around 42 per cent of the yarn produced in the country is from Tamil Nadu Textile Mills and 47 per cent of the cotton yarn exports valued at Rs.3065 crore come from these mills. The Power loom sector in Tamilnadu has also been playing an important role in meeting the clothing needs of the people. There are 4.50

\(^8\) op. cit., p.198.
lakh Power looms in Tamil Nadu, providing employment to about 9.14 lakh workers. The Hosiery and Garment sectors are the fast growing segments of the Textile Industry in Tamil Nadu. There are about 400 garment units in the State providing employment to about two lakh persons contributing Rs.2500 crore in foreign exchange.

Processing is an important value added segment in the Textile Sector. There are 2614 Hand Processing Units and 985 Power Processing Units located in Tamil Nadu. Out of 985 Power Processing Units in the State, 713 Units are located in Tirupur. The State Government is taking initiative to set up one exclusive Processing Park at Cuddalore under the Scheme of Integrated Textile Park launched by Government of India. The demand for the Indian Textile goods has increased manifold in recent years due to the liberalization of global trade. Textile units have started installing Modern Hi-Tech machineries to increase the production capacity and also to meet the international standards in quality.

The Department of Handlooms and Textiles has been implementing various welfare and developmental schemes so as to promote the socio-economic conditions of the Handloom weavers and also looking after the smooth functioning of the Spinning and Textile mills, Garment and Hosiery sectors in the state. Some of the welfare and developmental schemes being implemented by the Department of Handlooms and Textiles are as follows:

9 op.cit., p.288.
The promotion and development of Khadi and Village Industries in the State with a view to providing employment to rural people utilizing locally available raw material, and thereby improve their economic condition. It is looked after by the Tamil Nadu Khadi and Village Industries Board which was formed in 1960. The main objective of the Tamil Nadu Palm Products Development Board, which has been functioning with effect from 6.1.95, is to introduce modern concepts, to promote research for the development of Palm Products industry and better utilization of Palm products with the social objective of uplifting the economic condition of rural palmgur artisans. Tamil Nadu, a traditionally silk producing State is having 22180 acres under mulberry cultivation. Sericulture consists of cultivation of mulberry and rearing of silkworms. Sericulture Industry has a high employment and income generation potential for farmers, especially for women in rural Tamil Nadu. 60 per cent of the works are carried out by women and they are involved in garden maintenance, Silk Worm rearing, Cocoon harvesting, Silk reeling etc. Tamil Nadu is the major silk consuming State and the estimated requirement of silk will be 1500 metric tonnes per year.

The Tamil Nadu Handicrafts Development Corporation is the one and only agency not only providing marketing assistance to craftsmen but also nurturing and developing heritage crafts of Tamil Nadu. The Corporation is running its business under the trade name Poompuhar and today Poompuhar is a repository for the best handicrafts of Tamil Nadu.
1.3 STATEMENT OF PROBLEM

SSI units are facing a lot of problems in their regular functioning. The problem starts from the primary stage and continues till the end. Getting registration, asking for finance, managerial skill etc are the major problems faced by almost all SSI units.

With the tertiary sector galloping very fast\(^\text{10}\), it is now realized that the primary and secondary sectors cannot be allowed to retard the overall growth of the economy. As far as the agricultural sector is concerned, the need for ushering it in a second green revolution is strongly felt. Besides, the steady decline in its contribution to GDP, there is a deceleration of its employment generating capacity. The second green revolution is necessary to revitalize this sector. Creation of non-farm employment opportunities to absorb the growing labour force, therefore, gains strategic importance. In this sphere, the Small, Medium Enterprise segment can play a decisive role. Among other constraints, the non-availability of adequate credit at reasonable cost has been one of the perennial problems faced by them. Considering the strategic role of this segment, banks have to adopt a pragmatic view on the interest rates charged to this segment. Banks are also advised to follow a transparent rating system with the cost of credit being linked to the credit rating of the enterprise.

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India’s nascent manufacturing resurgence may have occurred earlier, but for the policy of reservation of items for the small enterprises. An historical baggage from the time when the economy was protected and the government decided who could manufacture, what and how much, the policy has been begging to be scrapped for years now. However, when the competitor of a small Indian enterprise was a big Indian company, there were some job losses in the short run, but the new jobs stayed within the country. But now, with the competition having become global, when a small business shutters, the jobs actually move to a country like China.

Finance is the life blood and nerve center of a business.\(^{11}\) Just as the circulation of blood in the human body is essential for remaining alive, finance is very much necessary for maintaining the smooth running of a business. The financial requirements of an organization can be categorized as fixed capital and working capital. The need for fixed capital cannot be over-emphasized. Every business needs some capital to be invested in fixed or non-current assets so as to create production or business facilities. No business can be started without an adequate amount of fixed capital. Right from the very beginning, i.e. conceiving the idea of starting a business, capital is needed to promote or establish the business, acquire fixed assets, make investigations such as market surveys, development and expansion.

The role and growth of the SSI should not lead one to think that the sector is free from problems. Rather, the problems are the severe and the consequences are disastrous in some cases leading to the closure of the units. It is disheartening to note that one out of every thirteen units is said to be sick and four fifths of the sick units are not viable for various problems the SSI's face. There is one problem which frequently overshadows the rest, particularly in certain stages of growth and that is the problem of finance. Put at its simplest, the financial problem of small firms is that of finding funds at the right time, of the right type and in the right quantity at the various stages of development. Lack of adequate finances and credit has always been their major problem. They have a weak capital base of their own because they are mostly organized on a proprietary or partnership basis, usually of a very small size. They are poorly placed in the matter of capital formation.

At the outset, the selection of various fixed assets required to create the desired production facilities and the decision regarding the determination of the level of fixed assets is primarily the tasks of the production or technical people. However, certain financial considerations are also involved in them. As the decisions relating to fixed assets, involve huge funds for a long period of time and or generally of an irreversible nature affecting the long-term profitability of a unit. An unsound

investment decision may prove to be fatal to the very existence of the organization. Thus, the management of fixed assets is of vital importance to any organization.

The limited availability of long-term funds to small firms is largely responsible for their too much dependence on short-term financing. It is not the cost-conscious policy which prompts them to use more amounts of short-term funds than required. In most of the cases, small units do so under compulsion. By and large, they use their own funds to finance their long-term needs. But funds from this source are limited to the personal savings of proprietors, partners and members. Their legal form of organization is mainly responsible for this state of affairs. Profits retained in the business have an important bearing on the availability of funds in all units-big as well as small. But it is of particular significance for small firms. But they can't depend on this source because they do not earn enough to retain. Moreover, the earn is not stable and therefore the retained earnings at times do not coincide with the requirements of the development expenditure or for sustaining a temporary loss so that development may later proceed from the stage already reached.

Term loans from lending institutions, friends and relatives are another important source of the long-term financing of small firms. The government of India has set up a number of specialized institutions to assist the units in the small sector in various ways. But SSIs are generally believed to have no easy access to these institutions for various reasons, the
important ones being the inability to offer worthwhile security, low profitability, morality of a high degree, poor management, procedural and administrative problems, cumbersome formalities and information gap. Various research studies had also revealed the inadequacy of institutional finance to small-scale industrial units. This is borne out by the reports of various government committees and studies.

As far as the financing of expansion projects is concerned, loan from commercial banks has been ranked as the most important source by most of the units of all groups except for the units of company form of organization. For them, loan from other financial institutions is the most important source and loan from commercial banks is marked as the second most important source. Venture capital, lease financing and even issue of share capital as sources of financing the expansion requirements of capital found no importance among the surveyed units.

Effect assessment in general is directed at establishing whether or not an intervention is producing its intended effects. Impact assessment is ordinarily conducted by comparing information about participants and non-participants to see if there are differences in performance and trying to relate the differences to the intervention. An alternative is to study the participants before and after the interventions so as to estimate the incremental effect.

Developing countries should also tap into the potential of women entrepreneurs. Women are generally the most numerous and serious
entrepreneurs in developing countries, even though their businesses are often small. They repay loans more reliably than men, and they use their earnings for the benefit of families and for reinvestment. Well-designed programmes which treat clients as responsible adults are likely to attract an average proportion of women and will have good results in both social and financial terms.

Two major problems responsible for the sickness of small and tiny sector are lack of availability of adequate credit, especially working capital and problems associated with marketing of products. In this respect, small scale industry associations have highlighted certain facts. There are 95 per cent of the Small Scale units still below the Rs one lakh level of investment in plant and machinery. Ironically, 95 per cent of Small Scale units accounting for nearly 33 per cent of the employment in the factor sector are not getting more than three per cent of their credit requirements. The SSI units are not able to effectively market their products, in the absence of brand names and superior advertising power of large units. Collateral Security and third party guarantee insisted by the banks and this is one of the important problems of SSI financing.

Some of the problems faced by entrepreneurs were not related to credit, but rather a result of macro and institutional constraints, including demand and supply problems, tax regime and energy problems. The study therefore suggests that there is no need to over-emphasize the importance of credit as a determinant of successful entrepreneurial activities.
1.4 OBJECTIVES

The following are the prime objectives of the study:

1. To document the history and development of Small Scale Industries;
2. To study the performance of banks in relation to various types of activities;
3. To identify the role of bank finance to Small Scale Industries;
4. To study the pattern of trade and socio economic aspects of sample entrepreneurs;
5. To examine the factor influencing the entrepreneur for specific functional aspects;
6. To analyze the opinion of Small Scale Industries entrepreneurs on the various problems faced by them and
7. To suggest ways and means to minimize the distress of Small Scale Industries entrepreneurs.

1.5 METHODOLOGY

This study is an analytical study requiring both primary and secondary data. Secondary data are collected from various websites, books, and publications of Reserve Bank of India, Journals, research publications and other published and unpublished records. The primary data are collected from sample SSI respondents.

Secondary data relating to performance of various types of banks are collected from different bank publications and Reserve Bank of India bulletin. Economic Survey reports are also verified. Primary data are
collected using Interview Schedule. A sample of 60 urban and 60 rural respondents are selected on convenient sampling basis and primary data are collected.

In Salem district there are 31,375 small scale units as on 31.3.2006. The total and sample are given in the following table:

<table>
<thead>
<tr>
<th>Type of unit</th>
<th>Registered Units</th>
<th>Sample taken for study (0.004 Per cent)</th>
<th>Data collected from</th>
<th>Sample Percentage to Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td>16018</td>
<td>64</td>
<td>60</td>
<td>0.004</td>
</tr>
<tr>
<td>Service</td>
<td>15357</td>
<td>61</td>
<td>60</td>
<td>0.004</td>
</tr>
<tr>
<td>Total</td>
<td>31375</td>
<td>125</td>
<td>120</td>
<td>***</td>
</tr>
</tbody>
</table>

Though a sample of 125 was selected, the interview schedule particulars were complete only in respect of 120 respondents. Thus the study has 120 sample SSI unit entrepreneurs.

1.6 TOOLS USED

Analysis of data is done with various statistical tools. Simple tools such as averages, percentages, ratios etc are used. Correlation, regression, Chi-Square test etc are used for analysis. Trend is also used to forecast changes in future.

1.7 AREA OF STUDY

The area of study for the purpose of primary data is Salem District in the State of Tamil Nadu. Secondary data are collected from various bank groups at national level.
Salem District\footnote{www.tamilnaduindcom.org.} has greater concentrations on large scale industries compared to other districts in Tamilnadu with the exception of Madras, Chengleput, Coimbatore and Madurai (Districts). There are at present nearly 100 Large or Medium scale industries units in this district covering a wide range of product lines grouped in to Chemical, Mineral, Paper, Steel, Spinning industries etc. There are about 31375 small scale industrial units. The following industries are predominantly flourishing in Salem District such as Tapiaco Starch and Sago, Readymade garments, Textiles etc. The Starch and Sago are manufactured in most of the taluks and nearly 700 units are functioning in Salem District. Nearly one lakh number of workers is directly employed in Sago factories.

The District is well endured with a variety of mineral resources such as Magnesite, Dunite, Calcite, Bauxite etc. More number of Mineral crushing industries is functioning in and around Salem. In Salem District, there are 100 units having export registration, out of which 50 are readymade garments manufacturing units doing Export business.

Among the readymade garment units, 15 units are direct exporters, while the other units are exporting their fabric garments by way of sub contracts to the other exporters. All the 15 direct exporter units are modernized or technologically upgraded; remaining 35 units have to be modernized. Nearly 1.2 lakh number of workers which includes direct as well as indirect is employed. The annual production turn over is around
Rs.600 crores. Coir is an important industry in the District providing employment to about 7500 persons. Such units are concentrated in a few villages around Salem, Panamarathupatty and Kollapatty. 20 per cent of the workers are members of the Industrial Cooperatives Society and the rest carry on the work independently.

The Date of human civilization in this district reaches far back to the stone ages. The existence of prehistoric culture in Salem is evident from the discovery of Paleolithic and Neolithic stone implements and dung ash heaps in and around Salem.

The industrial Policy of the Government of India and State aims at the development of the Small Scale Industries to create large employment opportunities. A major structural change in the Industrial Policy of Government of India is the Creation of a Single agency to be known as District Industrial Centers to deal with all the requirements of Small and Village Industries at the District level in order to achieve the objectives of effective promotion of cottage and small industries widely dispersed in Rural areas and small towns.

1.8 PERIOD OF STUDY

The primary data are collected during the period of two years i.e. during 2006 and 2007. Secondary data are collected for a period of five years and in certain cases more than five years.
1.9 LIMITATIONS OF THE STUDY

This study is analytical in nature. Banks do not provide separate performance data at district levels. They publish only consolidated data in relation to priority sector, and other aspects. Hence district wise data for bank performance could not be collected. Primary data are collected in the State of Salem from the sample respondents. Further the study is restricted to SSI finance provided by commercial banks in Salem District only.

1.10 CHAPTER SCHEME

The study is divided into six chapters. The first chapter deals with research design. Review of literature is done in the second chapter. Small Scale Industries and study area are studied in the third chapter. Secondary data relating to banks are studied in the fourth chapter. Primary data are analyzed in the fifth chapter. Findings, suggestions and conclusion are given the final chapter.