CHAPTER VI

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CHAPTER - VI

Conclusions

Introduction:

In this chapter an attempt is made to highlight some important conclusions of our study and the suggestions based on our findings. It has been the effort of this study to increased the efficiency of the working of the two corporations, and to extend further the financial and promotional role of GIIC and GSFC in Saurashtra region. The role of loan finance is examined empirically in order to study the impact of loan finance on output, and employment generation in small units in our sample. Conclusions and suggestions are given below regarding the operational aspects of GSFC and GIIC and also generation of employment and output, and the problems faced by entrepreneurs in Saurashtra region.

To understand results of this study, this chapter is divided into four sections. The first section gives general observations of this study while the second deals with the testing of our hypotheses, whereas, the third section draws conclusions for efficient operation of the two corporations and the fifth the reveals development of entrepreneurship for the industrial development in Saurashtra region. The last section gives suggestions
based on this study for future policy and further research.

Section-I

General Conclusions:

(1) It can be concluded from this study that both state-sponsored corporations viz, GSFC and GIIC are development banking institutions which have played both financial and promotional role to develop small scale units in Saurashtra region. This is evident from both second and third chapters that GSFC and GIIC have played catalytic role for financing and promoting industrial development in Gujarat in general and Saurashtra in particular. However, it is evident from chapter second and third that GSFC is leading in financing role through its various innovative schemes for small industrial units, whereas, GIIC is leading in promotional role for investment in medium scale industrial units and entrepreneurship development in the state.

(2) From, the analysis of our secondary data, it appears that industries have been setup in agriculturally prosperous districts where infrastructure is substantially developed. Our analysis also reveals that the total capital investment and the size of loans given by corporations does not effect industrial location in a particular district or area.
(3) Annual reports of GSFC reveal that major flow of
loans has gone to central Gujarat region and Saurashtra
region stands second. This has happened owing to higher
percentage of applications received from these regions.
In the same way, sub-regions of Saurashtra districts like
Rajkot, Jamnagar and Bhavnagar are leading in getting
GSFC loans as higher percentage of applications for loans
were received from these districts. As against this, in
Surendranagar district where subsidies both from the
central and the state Government are available has
lagged behind in the number of applications forwarded
to the corporation and hence low amount of loan has
gone to the district. However, in case of Surendranagar
district % share of assisted units is substantial in
total units of Surendranagar district

(4) Since inception of GIIC, it had introduced a
small cell to train new entrepreneurs coming-up from
middle income group and edite class subsequently, a
small cell developed into separate state level centre
for entrepreneurship development (CED) in 1979 which
has substantially helped new entrepreneurs and service
people to be the owners of industrial units.

Section-II
Validity of our Hypotheses:

(1) We, thus can prove our first hypothesis that
institutional finance has significantly affected the
industrial development of Saurashtra.

Our primary data reveal that 23.65% of total capital is received from GSFC and GIIC in our sample units. This has stimulated investments from other sources like banks. This has also helped to generate more employment and product diversification in Saurashtra. On account of development bank finance, credit finance was given to small units as corporations acted as guarantor to the banks.

(2) Our second hypothesis that institutional finance has aggravated sectoral and sub-regional imbalances in the region, falls flat. It is found that the loans from both the corporations have tried in a big way to reduce the regional disparities in industrial development except that Amreli which could not attract new entrepreneurs. There are several managerial/entrepreneurial problems affecting location of small units in all districts of Saurashtra. Quick transportation system, establishment of industrial consultancies at district level can reduce regional and sub-regional imbalances as well as disparities of sub-sectoral development of industries. Moreover, in case of resource-based industry like ceramics, it can not be developed in a balanced way in all districts of Saurashtra region, as deposits of raw materials can be found naturally at certain places. Owing to this, it is difficult to develop
all group of small industries equally in all districts of Saurashtra.

(3) Our third hypothesis that institutional finance has generated employment in assisted units, it is also substantiated as relationship between total capital and employment at district level in our sample is found to be \( r = 0.64 \) which is positive and highly significant. But the relationship of size of loan and employment in our sample units, it is found highly insignificant as \( r = 0.22 \) we can say that size of loan and employment are not related but size of total capital and employment are related. In other words, high size of loan does not generate high level of employment in small units of Saurashtra.

But in actual practice, it is very difficult to identify employment impact generated by GSFC and GIIC finance. For this, we have examined linked-employment (forward and backward linkage of employment) multiplier which is many times greater than whatever is visible in the financed units and the open impact generated by financing small units in our sample units in Saurashtra. Thus, we can hazard the conclusion that the loan finance has led to creation of more employment, output and income several times greater than the direct, increase visible in the assisted industrial units. We can call this effect as Linkage Employment Multiplier.
(4) Our fourth hypothesis is that total capital and output in different industries of our sample units are highly co-related. It is observed in our analysis that co-relation co-efficient between total capital employed and output in value are found highly significant at various industries level as \( r = 0.70 \). This phenomenon shows that in development of various types of industries in Saurashtra region, there is positive and significant relationship between large size of capital employed and output. This result gives us a broad picture, however, there are other variables to be studied apart from capital for understanding the relationship between capital and level of employment, etc., etc.

As against this, total capital and value of output at district level are found to be highly correlated as \( r = 0.72 \). This shows that total capital invested in each district has played important role in development of small units in terms of value of output generation. We can say that small industries have generated new investments in Saurashtra region.

(5) Our fifth hypothesis is also proved that size of corporate loan and output are correlated as co-efficient of correlation between these two is \( r = 0.60 \). Thus we can say that GSFC and GIIC loans have played an important role in generation of output in our sample units. The
innovative schemes of both these corporations have led new entrepreneur or business man to be the owners of their industrial units along with substantial increase in output. For corporate policy, it can be suggested that loan operations should be extended to unbalanced resource-based industries in Saurashtra.

(6) Our six hypothesis is substantially acceptable that success of entrepreneurs can be better measured in terms of profits. Our analysis shows that those entrepreneurs who have invested greater percentage of their owned capital along with institutional finance are found highly profit-makers. Moreover, sample analysis shows that successful entrepreneurs have business background or experience in industry or in relevant field (75%) are found important variables apart from their owned capital. Accordingly, the caste factor is also found to play an important role in the industrial development as in our case Luvana, Bania and Brahmin castes are leading in profit making.

(7) Our data from the units surveyed shows that almost all the units have made use of bank finance and owned capital along with the corporations' financial assistance. In many cases the corporations loans have worked as a guarantee for additional finance from banks and the role of the corporations in extending long term credit for fixed capital and the banks in extending short term credit for working capital have been complementary in the development of industrial structure of Saurashtra region. It should be
said to the credit of the corporations that their loans have given momentum further mobilization of bank finance and entrepreneurs' owned finance in the growth of many small industries in Saurashtra.

(8) Our hypothesis regarding the greater productivity of capital in small units than the all India productivity of capital shows that with small capital we can produce more output in small enterprises. This has been proved by our capital output ratio in the units survey being as high 1.18. This may lead us to conclude that the corporation should advance more loans to small units and extend its facilities as many units as possible.

(9) Our hypothesis that with greater amount of capital invested in an enterprise the greater will be its profitability is validated by our analysis in chapter-IV. The rank correlation between the total capital and profits is found to be 0.68. We can say that high amount of capital is required to earn high profit in small units in Saurashtra.

(10) Our hypothesis that the greater percentage of skilled workers in an enterprise productivity and profitability both will be higher is also validated by rank correlation which is 0.77 positive and significant between % of skilled workers and output. Moreover, correlation between percentage of skilled worker and level of profit is found to be 0.66. Which is highly significant. This can lead us to suggest that it will be in the advantage of the industrial development to increase skilled labourers in Saurashtra.
(11) Our hypothesis that the higher percentages of fixed capital can generate higher percentage of output and profit. We found that rank correlation between fixed capital and output is $r = 0.04$ and rank correlation between fixed capital and profit is $r = 0.60$ which shows that high amount of fixed capital does not affect output in our sample units. While, profit is highly correlated with fixed capital.

(12) Our hypothesis that higher the percentages of owned capital in small units higher will be percentage share of output and in profit. We have found highly significant correlation between owned capital and output as $r = 0.62$ and correlation between owned capital and profit is $r = 0.59$. These relationships between owned capital and profit as well as owned capital and output shows that for better utilization of loans given by corporations at least 25% owned capital is required as we have found in our sample units.

Section-III

Operational Aspects of Corporations:

(1) Looking to percentage analysis of the gaps between applications and sanctions no substantial change was found between 1970-’71 to 1979-’80 in our secondary data analysis of corporations under study in Gujarat as a whole, whereas, in Saurashtra region gap is reduced in comparison with other regions of the state.
Quick decision shows reduction in gap but this might increase sickness in new units. Scrutiny and appraisal of applications are necessary as they involve risks. Sometimes, gap is essential for fully scrutinising applications, as in some cases, it was referred to professional consultants to examine technical feasibility of the projects in early stage of corporations. But this is true only for a new product, or a line of manufacturing.

(2) With regard to the loans overdue from small units in our sample, it appears that the units holders under general scheme are leading in full amounts overdue.

The secondary data reveal that general scheme units are leading in sanctions, disbursements and outstanding of loan amounts. However, it is true from our analysis that relative share of Saurashtra in recovery is greater in comparison with other regions of the state. There are units in our sample which have not paid even their signal instalment of loans and interest.

(3) Regarding the role of GSFC and GIIC in relatively backward districts, it has been found that Saurashtra region is leading among all regions of Gujarat State. In the case of sub-regions of Saurashtra, districts like Junagadh and Surendranagar have availed of loan finance along with state subsidy and stood highest compared to the other districts of Saurashtra.
(4) Regarding entrepreneurship development by the corporations, it is observed that institutional finance has developed new young entrepreneurs in different castes of Saurashtra. Ranking of castes show that Luhar-Suthar, Luvana and Brahmin are found successful entrepreneurs. A noticeable element was found in our study that profits and education are not related significantly.

Entrepreneurs who earned highest percentage of profit are found to have primary education with experience in relevant field, whereas, entrepreneurs having technical education are running their units in loss. It leads us to conclude that qualifications of most successful entrepreneurs in our sample units are primary education with experience in manufacturing, with service or selling experience of relevant commodity. A striking element is that successful entrepreneurs are those who were financed under a N.E.S. scheme as well as general scheme of both the corporations. With a regret to mention that major defaulters are found under those two schemes. Therefore, more follow-up actions are required to review operations of both the schemes.

(5) Regarding regional disparities, an analysis of chapter-II, section— (table No.2:3, 3:3) shows that regional disparities in applications received and sanctioned decreased in highly developed central Gujarat region between 1970-'71 and 1979-'80, the share of south-Gujarat
and Saurashtra region has increased during the period. This shows, as there is rise in infrastructure, regional disparities have decreased.

Similarly in Saurashtra region the share of developed sub-regions like Rajkot and Jamnagar districts decreased, the districts like Junagadh and Surendranagar are leading both in terms of industrial units assisted as well as amount sanctioned and disbursed to those districts. In case of district like Amreli, only GSFC or GIIC loans can not develop it as there is lack of enterprising person required for rapid industrialization.

(6) Analysis of chapter-II (table No. 2:5 & 2:6) shows that GSFC has utilized identical appraisal technique for developed and backward regions and sub-regions in Gujarat-state. Though, south-Gujarat region was leading in availing of GSFC loans during 1970-’71 to 1979-’80, the percentage gap between amount applied for and amount sanctioned increased substantially. In case of remaining regions the amount gap has reduced which shows that GSFC has identically treated all districts equally in the process of loans applications and appraisals and participated in the process of speedy industrialization of the state by development and financing small units.

Time gap analysis given in chapter No. 4 shows that GSFC has attempted to speedy sanction & disbursement of applications and time gap is minimum. We can not remove optimum gap as mentioned in the chapter No.2. This may
affect not only operational efficiency of GSFC and GIIC but also it can give birth to new assisted units as sick units if the projects are appraised in haphazard manner.

Section-IV

Entrepreneurship Development:

With regard to entrepreneurship development in our sample units, data are analysed to study impact of GSFC and GIIC finance in our study. The followings are important conclusions emerging from the study.

(1) It is found that most of the entrepreneurs were attracted by the schemes of corporations (27.78%) and low to rate of interest (26.67%). The state as well as the central Government subsidy could not attract entrepreneurs in backward areas as desired by the corporations as well as the Government of Gujarat.

(2) Entrepreneurs who approached the corporations for loan have paid 49.93% of total cost as other changes. It is necessary for corporations to reduce such types of additional expenses to get loan in order to attract more entrepreneurs from Saurashtra region.

(3) Looking to capital structure of sample units, it is found that entrepreneurs have invested 25.33% of the total capital as owned capital, while remaining part of total investment was borrowed capital. Not only that but out of 25.33% of owned capital, entrepreneurs
those who have invested higher amounts are found with high profits. As against this, entrepreneurs who received 100% finance under the technicians scheme most of them are found loss making. Though they are technically skilled but depth of marketing and selling capabilities.

(4) An attempt is made to measure successful entrepreneurship in Saurashtra in our sample units. We have found certain relationship of profits and qualities, tracts and background of entrepreneurs:

(a) The castes like Brahmin, Jain, Bania and Patel have shown prominent role in young successful entrepreneurs below an average age of Saurashtra region. (table No.5 :3) and they received high profits than other castes (table No.5 :4)

(b) Sound occupation/business background apart from education played important role in making successful entrepreneurs in Saurashtra (table No.5 :6) 90% of total entrepreneurs from sound business/industry background are higher in profit making.

(c) Highly Educated entrepreneurs and profits are negatively related. Table No.5 :7 reveals that primary education or high school level education are found higher profit making than technically qualified or highly educated beyond graduate level education of entrepreneurs (Table No.5 :8, 5:9).
In our study entrepreneurs financed by GSFC and GIIC under technicians' scheme having sound technical education of production line are incurring losses as they lack experience, and expert knowledge in marketing and selling their products. Our study reveals that high educated entrepreneurs and profits are not positively related whereas, persons having primary or high school level education with experience in similar product either in industry or business are found high profit-making successful entrepreneurs in our sample.

Regarding relationship between size of fixed investment and profit, it is found that entrepreneurs in the category of Rs.5 to 10 Lakhs 92.63% of the entrepreneurs are found profit making (table 5:13). Diagram shows that there is no consistent relationship between the size of fixed investment and profitability. However, major portion of upward trend of profitability curve shows that investment upto Rs.10 lakhs, we find consistent increase in profitability.

With regard to relationship between size of loan finance from GSFC and GIIC and profit-making, it is observed that (table No.5:14), entrepreneurs received loans between 1 lakh to 5 lakhs of rupees have among them 90% earning profits

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(5) In connection with managerial/entrepreneurial problems of small units in Saurashtra, more or less, the nature of problems have remained the same as it was observed in earlier studies. The problems like shortage of raw material, working capital, lack of skilled workers, dearth of machinery repairing workshops, distribution of raw materials, and critical inputs are important problems faced by entrepreneurs. Proper diversification of small units in Saurashtra is also an important problem.

It has been observed in our field inquiry that the problem of repayment of loans is serious owing to low sales, competition for sales, particularly for those entrepreneurs financed under technicians' scheme. Even they have not repaid 50% of loans amount regularly. A similar phenomenon is repeated in the case of entrepreneurs financed under mini-loan scheme.

Section-V
Suggestions

Here, we will try to give some suggestions for industrial development agencies engaged in the development of small scale industries in general and GSFC and GIIC in particular, for future guidelines.

(1) Our study reveals that, it will be most essential for GSFC and GIIC to render cheap and concessional technical industrial consultancies for small scale industries.
at each district level in Saurashtra. In developed districts, there are developed pockets, whereas, within backward districts, there are developed pockets located near urban centres. Industrial units financed under various innovative schemes appeal to start industrial consultancies at district level not only for technical guidance but also for dissemination of information, regarding cost, price, of raw materials and critical inputs, purchase of machineries and repairing of machineries etc. This may help to solve immediate problems of entrepreneurs.

(2) A separate cell should be started to identify sick units. This cell should monitor the required information regarding provision of technical guidance and advise to small units which are going towards sickness. Even though they are financed by GSFC and GIIC.

(3) Loan capital is not the only criterion to encourage location of small industries in a given district. It is found that corporations' loans have helped small units to mobilise capital substantially from other sources also.

(4) To identify new potential entrepreneurs in Saurashtra, GSFC and GIIC and CED should attract the present employees engaged in rural craft or resource-based industries. Ceramics industry is an example from where technical staff have come out as successful entrepreneurs in Than district Surendranagar. Most
of them are either financed under technicians' scheme or under NES, by both the corporations.

Regarding training to potential entrepreneurs, CED trains educated persons with some background of business or industry or experience in similar lines but it can also undertake programme for uneducated potential entrepreneurs who have experience in similar filed e.g. shoe-makers, diamond cutters, employees of ceramics etc. It is found during field Enquiry that 32% entrepreneurs have shown their desire to get training at their own cost regarding cash budget, financial management, marketing management, since they have not received formal training as the entrepreneurs in their own lines.

(5) We found in our survey that the capital output ratio in small scale industries was fairly low (1.18 for small scale units in Saurashtra) and as such it is highly desirable that as many of the viable small scale units should be financed as possible. This policy will also be in consonance with our central Govt. policy to emphasise the development of small scale industries.

(6) To solve entrepreneurial problems of small units in Saurashtra like raw materials and critical inputs, it is most essential to start regional offices of Gujarat small industries corporation. For Saurashtra region, its Head quarter should be at Rajkot.
(7) To reduce the cost of loan and other charges, one post of public relations officer should be created at various district offices of GSFC and GIIC for dissemination of information as well as for helping potential applicants by informing them about the procedure to get loans. It is found that officers of district industries centres at various districts are not helping in this matter sufficiently.

(8) GITCO and INDEXT should undertake extensive studies regarding new bankable projects and new industries likely to be established in Saurashtra.

(9) For publicity of various schemes and dissemination of information. It is found that newspaper advertisement in local language as well as cinema slides or trailers in local language can be effective media of advertisement for all corporations engaged in development of small units in Saurashtra.

(10) Moreover our analysis shows that the greater the amount of owned capital provided by the entrepreneurs the greater will be the success of the enterprise. This is because the entrepreneurs will take special care to see that their projects succeed and that their own capital is not sunk. Hence in order to avoid sick units as also the overdues from firm it is necessary that loans should be given to viable entrepreneurs. We also suggest that even
in technicians'scheme 25% of the capital should be owned by the entrepreneurs.

Some may feel that as such entrepreneurs are poor we can not find 25% of the capital. But the corporations should first of all given them small loans & try them hand at starting very small business involving 25% of their own capital. & if he is successful and earns profit he should be given loan of greater amount. It has been the history of big businessment that they started from a scratal or as employees in big froms and they accumulated their owned capital/set up their enterprises like J.N. Tata and some millowners Ahmedabad, & Bombay. Hence the role of this corporations should be to include people to became small entrepreneurs & then rise in the ladder of higher entreprenuers.

(a) A great misconception prevails regardingthe employment capacity of very big and capital intensive enterprises. We have tried to show that when any enterprises is set up it generates employment in those areas and industries which supply raw material and intermediate products to the big firm as also in the areas where the products of the firm are sold used and consumed. This employment generated in this way also should be taken to account when we are examined the impact
on employment of setting up a big enterprise. This is well illustrated by Dr. L.C. Gupta in his recent book by showing how a small village Kalmati turned into a big city of Jamshedpur with large employment capacity of the firm and its ancillaries.

Gupta L.G. Growth theory and strategy
Now Direction, Oxford University Press 1983 P.10,11.