CHAPTER - I

INTRODUCTION

Small is beautiful, it is also bountiful. We love small things because small things can achieve big things. As we stand at the threshold of the 21st century, we see that small has really emerged as the big idea around the world, including some of the most advanced countries like USA, UK, Germany and Japan. Small scale industry in these countries is considered to be leading sector. In India after independence industrialization was given top priority in planning. Emphasis on industrialization is reflected from the industrial policy resolution of Government of India 1956, which laid down the foundation for the industrial policy in the country. It was felt that industrial development in India would take place through efforts and expansion of public sector.

Small industry covering a wide spectrum of industry occupies an important position in planned development of Indian economy and has grown to be the most vital sector of our nation on account of numerous characteristics such
as less capital requirement, labour intensive character, optimum technology adoption, dispersal in rural/ backward areas, contraction of regional imbalance, operational flexibility, quick adaptability, export orientation, widespread diffusion of entrepreneurship, equitable distribution of economic wealth of the country.

Utilization of locally available human and material resources and expertise/experience, capacity to attract small savings and divert to productive channels, play vital role in resolving chronic problem of unemployment or underemployment. In the last fifty years of economic planning and development in this country small-scale industry has fulfilled some of these expectations. They have contributed significantly to our national output and income, foreign exchange earnings, employment and dispersal in our economy. “As in March 1998, there are 30.14 lakhs small scale units spread all over the country employing around 167.20 lakhs people and production at current price is estimated at Rs. 467224 crores (at constant price Rs. 270855 crores) which is about 40% of our total production sector. The volume of exports (direct) from this
sector is Rs. 43946 crores (provisional) earning valuable foreign exchange which is 35% of total export."

ROLE OF SMALL INDUSTRIES IN THE INDIAN ECONOMY

Small-scale sector has emerged as a highly vibrant and dynamic sector of the Indian economy and has been playing vital role in shaping the destiny of nation since independence.

This sector has proved its worth not only by contributing greatly to the growth and development but also by generating employment. It has shown capacity to absorb competitive technology and as a result foreign exchange is being earned.

"The viability of the small scale sector could be judged by the fact that the net value added per one rupee fixed investment with respect to the small scale is 0.96 against 0.41 in the large scale sector, while the production per unit of investment in the small scale is estimated to be 5.60 against 1.80 in the large scale sector. A project in the small scale sector with an investment of Rs. One million normally provides employment to 173 persons
while the same number of employees in the large-scale sector would require on investment of Rs. 5.31 million.\(^2\)

The relationship between the large and small sector is, however complementary and manifests itself significantly in the form of subcontracting to their mutual advantage. A small ancillary unit is able to supply standardized components to a large-scale parent unit at cheaper rates owing entirely to personal supervision and lower overheads.

**Table-1.1**

<table>
<thead>
<tr>
<th>Period</th>
<th>No. of Units (in Lakhs)</th>
<th>Production Rs. in crores (current prices)</th>
<th>Employment (in Lakhs)</th>
<th>Export (in crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960-61</td>
<td>0.36 (R)</td>
<td>N. A.</td>
<td>16</td>
<td>N. A.</td>
</tr>
<tr>
<td>1966-67</td>
<td>2.50</td>
<td>N. A.</td>
<td>18</td>
<td>68</td>
</tr>
<tr>
<td>1976-77</td>
<td>5.92</td>
<td>12400</td>
<td>50</td>
<td>766</td>
</tr>
<tr>
<td>1986-87</td>
<td>14.62</td>
<td>72250</td>
<td>101</td>
<td>3643</td>
</tr>
<tr>
<td>1996-97</td>
<td>28.57</td>
<td>412636</td>
<td>160</td>
<td>39249</td>
</tr>
<tr>
<td>1997-98</td>
<td>30.14</td>
<td>465171</td>
<td>167.20</td>
<td>43946</td>
</tr>
</tbody>
</table>

R = Registered, N. A. = Not Available.

**Source:**
2. SSI, DCO (unpublished material)
It is evident from Table-1 that apart from the rapid increase in the number of units from 0.36 lacs in 1960-61 to 30.14 lacs in 1997-88 out of these 42% units are located in rural areas, the rate of growth in production increased from 12400 crores (current price) in 1976-77 to 465171 crores in 1997-98 and in terms of employment only 16 lakh were engaged in 1960-61 and now it stands at 167.20 lakhs persons. The share of small industries in total export has registered a sharp increase, from 68 crore in 1966-67 to 43946 crores in 1997-98. In non-traditional products alone small sector now accounts for 40% of total export. The above figures clearly indicate a phenomenal growth, whether it is in number units, production, employment or export. Even in recent years the growth has always been higher than the large scale Sector as shown in the Table 1.2.
The onset of planning era in 1951 saw the village and small industries being recognized as important tool for employment generation and balanced regional development; the sector got a reasonable share in plan outlays as shown in Table 1.3.
Table 1.3

Plant Outlays for SSI Sector 1951-56 to 1992-97

<table>
<thead>
<tr>
<th>Plan Period</th>
<th>SSI's Sector Including Industrial Estate</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Plan</td>
<td>(1951-56) 5.20*</td>
</tr>
<tr>
<td>Second Plan</td>
<td>(1956-61) 56.00*</td>
</tr>
<tr>
<td>Third Plan</td>
<td>(1961-66) 113.06</td>
</tr>
<tr>
<td>Annual Plan</td>
<td>(1966-69) 53.48</td>
</tr>
<tr>
<td>Fourth Plan</td>
<td>(1969-74) 96.19</td>
</tr>
<tr>
<td>Fifth Plan</td>
<td>(1974-79) 221.74</td>
</tr>
<tr>
<td>Annual Plan</td>
<td>(1979-80) 104.81</td>
</tr>
<tr>
<td>Sixth Plan</td>
<td>(1980-85) 616.10</td>
</tr>
<tr>
<td>Seventh Plan</td>
<td>(1985-90) 1120.50</td>
</tr>
<tr>
<td>Annual Plan</td>
<td>(1990-91) 392.13</td>
</tr>
<tr>
<td>Annual Plan</td>
<td>(1991-92) 482.86</td>
</tr>
<tr>
<td>Eighth Plan</td>
<td>(1992-97) 2862.14</td>
</tr>
</tbody>
</table>

*Excluding Industrial Estate

**Source:** Report on Function and Activities, Small Industrial Development Organization 1992-93 Published by DCO/New Delhi P-9.

Even more impressive than these statistics, is the wide variety of products (over 7500) that are now being manufactured in the small-scale sector. Beginning with the production of simple consumer goods, the small-scale
sector has branched out to some highly precision-oriented products. The small scale sector has emerged as a major supplier of mass consumption items like leather products, plastic and rubber goods, stationary items, soap and detergents, domestic utensils, tooth paste and tooth powder, safety matches, preserved fruits and vegetables, wooden and steel furniture, flash lights, torches, boot polish, brush, paints and varnishes, spare parts etc.

Among the sophisticated items the main are the following: TV sets, electronic control system, radio, transistor, hearing aids, intercom sets, flash guns, car radio, electronic desk calculator, microwave components, plastic film capacitors, carbon film resistors, electro-medical equipment, such as cardiac pace makers and ECG machines, electronic teaching aids, digital measuring equipment, air conditioning equipment, dry cleaning equipment, house service meters, miniature bulbs, optical lenses, drugs and pharmaceuticals, electric motors, machine tools, automobile and scooter parts, printing inks, dye stuffs, pesticide formulations, photographic sensitive paper, razor blades, collapsible tubes etc.
Government of India has reserved 821 items for exclusive production in small-scale sector and 358 items are reserved for purchase from small-scale units including handicraft.

**BOTTLENECKS FOR SMALL SCALE INDUSTRY IN INDIA:**

During last 50 years achievements of SSI have fallen short of our expectations. Today, these units face numerous problems and some of them are languishing and face closures due to sickness.

The first problem of SSI’s is finance. Financial problem is pivot, round which all other problems revolve. If we solve financial problem, others will be automatically solved.

Financial problem for small scale Industry is same as AIDS for human beings. If allowed to continue, it will lead any healthy organization to ruin. The health of the unit undergoes gradual deterioration where sick unit can’t be viable and ultimately leads to closure of the unit and death of many families getting livelihood from this unit.
Sickness is a dreadly disease and is a cause of concern everywhere, whether it is a human body or an industrial body as it effects efficiency, productivity and ultimately proves fatal. Various causes are responsible for that, such as faulty planning, management deficiency, inefficient financial structure, under utilization of resources, scarcity of timely finance, obsolete technology, out dated machinery, shortage of power, poor quality and less demand.

Small scale units are generally started with weak equity base because of scarcity of own resources and are mostly dependent on financial agencies and government. Heavy reliance on borrowing makes a unit vulnerable to environmental pressures and effects operation of the unit by increasing interest burden and reducing borrowing capacity. As compared to it, large industries are based on strong capital structure and are organisationally strong. These industries can face hardships of business environment to some extent. But for small industries even a little problem effects its operation. Sickness in small units only tends to further increase involvement of leading
institutions and effects operation of these institutions in financing other new entrants or existing units in this field.

Industrial sickness is a universally accepted term and is directly or indirectly concerned with finance. Everyone, whether central Government, State Government, financial institutions, commercial banks or entrepreneurs are worried about it. Government of India has taken various measures from time to time to detect sickness at the incipient stages so that failure and ultimate closure of unit may not take place.

A small-scale industrial unit is considered sick if:

1. Anyone of its borrowal accounts remains sub-standard for more than two years i.e. principal or interest in respect of any of its borrowal accounts has remained overdue for a period exceeding 2.5 years.

2. There is erosion in the networth due to accumulated cash losses to the extent of minimum 50% of its peak net worth during the preceding two accounting years.
3. Mounting arrears on account of statutory and liabilities for, say a period of one or two years.³

Though various study teams and expert committees have been setup to examine the issue of sickness, pertaining to small scale units and have also suggested various remedies but as is clear from Table-1.4 a lot of work is still to be done to know about sickness in its initial stage. It may be observed that of the end of March 1991, there were 2,21,472 sick units which increased to 2,68,815 by the end of the 1995. Thereafter it started declining and stood at 2,20,594 units at the end of March, 1998. Over the corresponding period, bank dues outstanding against sick SSI increased by 37% from Rs. 2792 crore to Rs. 3843 crores. This is more important since remedial action could be taken at appropriate time rather than to wait and watch for the unit to become completely sick where nothing can be done to make it viable again.
### Table 1.4
Magnitude of Sickness in Small Scale Sector

<table>
<thead>
<tr>
<th>At the end of March</th>
<th>Potentially viable</th>
<th>Non-viable</th>
<th>Viability yet to be decided</th>
<th>Total</th>
<th>Viable units put under nursing programme</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of units (Amount o/s 1991)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16140 (693.12)</td>
<td>202998 (1997.16)</td>
<td>2334 (101.84)</td>
<td>221472</td>
<td>13224</td>
<td></td>
</tr>
<tr>
<td>No. of units (Amount o/s 1992)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>19210 (728.90)</td>
<td>223336 (2256.14)</td>
<td>3029 (115.61)</td>
<td>245575</td>
<td>13289</td>
<td></td>
</tr>
<tr>
<td>No. of units (Amount o/s 1993)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21649 (798.79)</td>
<td>213804 (2506.94)</td>
<td>2723 (137.25)</td>
<td>238176</td>
<td>12218</td>
<td></td>
</tr>
<tr>
<td>No. of units (Amount o/s 1994)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16580 (685.93)</td>
<td>234265 (2842.25)</td>
<td>5607 (152.19)</td>
<td>256452</td>
<td>11376</td>
<td></td>
</tr>
<tr>
<td>No. of units (Amount o/s 1995)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15539 (597.93)</td>
<td>249375 (2842.40)</td>
<td>3901 (106.84)</td>
<td>268815</td>
<td>10371</td>
<td></td>
</tr>
<tr>
<td>No. of units (Amount o/s 1996)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16424 (635.82)</td>
<td>240168 (2943.65)</td>
<td>5784 (142.47)</td>
<td>262376</td>
<td>11026</td>
<td></td>
</tr>
<tr>
<td>No. of units (Amount o/s 1997)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16220 (479.31)</td>
<td>213014 (3031.59)</td>
<td>5798 (98.30)</td>
<td>235032</td>
<td>10539</td>
<td></td>
</tr>
<tr>
<td>No. of units (Amount o/s 1998)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18681 (455.60)</td>
<td>198716 (3284.87)</td>
<td>3152 (102.97)</td>
<td>220594</td>
<td>N.A.</td>
<td></td>
</tr>
</tbody>
</table>

Figures in Brackets indicate Outstanding Amounts (O/S) in Crores

**Source:** By courtesy Reserve Bank of India, Unpublished Material.
Recently RBI has setup a one-man committee under the chairmanship of former secretary (SSI and ART) to look into various problems, such as credit flow to SSI sector, and change of definition on various grounds.

In his opinion a SSI unit account has to be non-performing for two and half years before it can be recognized as a sick unit and become eligible for nursing in the event of its being declared as potentially viable. In committed views, in fact 2.5 years of period of waiting is genuine case of sickness, but it could prove counter productive and even fatal.

The committee suggested the following points for considering a unit sick:

(a) If any of the borrowal accounts of the unit remains sub-standard for six months i.e. principal or interest in respect of any of its borrowal accounts overdue for a period exceeding one year;

(b) There is erosion in the networth due to accumulated cash losses to the extent of minimum 50% of peak networth during the previous accounting year, and
(c) The unit has been in commercial production for at least three years. 4

**Jammu & Kashmir:**

Jammu and Kashmir’s climatic condition and demographic location, make it distinct from other states. Due to these unique features the state faces internal and external problems. Internal problems are, under utilization of capacity, low profitability, inadequate sale, and faulty financial structure. The external problems are restraint on landing by bank and financial institutions, legal proceeding against the unit for recovery of loan, shortage of skilled labour, shortage of raw material, inadequate transport facility and less attention of Government towards SSI’s.

Insurgency has badly affected the industry in Jammu and Kashmir. The worst affected is the small-scale industry. Financial institutions push back their hands in providing loans. Trade credit has ceased to be available from the suppliers of raw material located outside Jammu and Kashmir. The cost of inputs has increased out of proportion and tends to lower the profitability of the
products manufactured. The labour has also become scarce because they are scared to work in the disturbed environment; Government takes less interest in small-scale industries. Due to these reasons almost all the small-scale units in Jammu and Kashmir have reached the closure stage. Even though the Government has made some efforts at the planning and allocation level, administrative malpractices have become a major hurdle in this path.

This research is a modest attempt in this direction. It is hoped that the findings of the study would be helpful for policy makers and industrialists in the industrially backward state of Jammu and Kashmir.

Committees Constituted for Tackling bottlenecks of Small Scale Industries:

Several committees were constituted from time to time by banks, central government and state government to deal with the sickness problem of small-scale industry. Some committees constituted are as under: 1. Tandon committee, 1975, RBI, 2. Warshney committee 1975 SBI, 3. Study group 1976 IDBI, 4. High power committee 1978 Union Finance Ministry, 5. Bhuchar committee
1976 RBI. Hasib committee 1986 RBI. But these committees did not suggest solid steps to tackle these problems.

After liberalization and globalization, the need was felt to deal with the financial problem of small-scale industries to enable them to compete. Some committees were set up after 1991 to tackle financial problem with changing circumstances. Main recommendations of these committees are discussed below.

**Nayak Committee:**

Nayak committee was set up by RBI in Dec 1991. It dealt with adequacy and timely availability of credit to SSI's. Nayak committee found that the S.S.Sector was getting working Capital to the extent of 8.1% of its annual output, which was less than the normative requirement of 20% of its annual, projected turnover by way of working capital. Accordingly, Nayak committee recommended that the SSI sector should obtain 20% of its annual projected turnover by way of working capital.
Based on these as well as on other recommendations of Nayak committee, RBI issued a number of circulars advising banks to grant working capital to the extent of 20% of the projected annual turnover, timely disposal of loan applications and setting up of specialized branches of banks for SSI loaning in the areas of higher SSI concentration.\(^5\)

On the basis of Nayak committee recommendations, finance Minister in budget speech of 1995-96 announced a seven point action plan for improving the flow of credit to small scale sector, consists of the following.

1. Time bound action for setting up specialized SSI branches in 85 identified districts, at least 100 such dedicated branches to be opened before the end of 1995-96

2. Adequate delegation of powers at the branch and regional levels.

3. Banks to conduct sample surveys of SSI accounts to find out, whether they are getting adequate credit.
4. Steps to be taken to see as far as possible that composite loans (covering both term loans and working capital) are sanctioned to SSI entrepreneurs.

5. Regular meetings by banks at zonal and regional levels with SSI entrepreneurs.

6. Need to sensitize bank managers and reorient them regarding working of SSI sector.

7. Simplification of procedural formalities by banks for SSI entrepreneurs.

**Abid Hussain Committee:**

Abid Hussain or export committee on small enterprises headed by Abid Hussain was set up on Dec. 29th 1995.

**Recommendations of Report:**

1. Abolition of the reservation policy in the small scale sector.

2. Scrapping of 24% limit for foreign investment within the industry as well as the enhancement in the investment ceiling for small enterprises.
3. Separate law for small enterprises.

4. For supporting small enterprises during transition period, the committee has recommended that the government need to provide annual resources of the order of 500 crore over the next five years thereby totalling Rs. 2500 crore, to the ministry of industry.

5. Banks and other financial institutions to provide concessional funding in terms of equity support and interest rate concession to such units for expansion, technology upgradation, modernization and training.

6. It also suggested that as a transitional measure for a period of five years, fiscal concession might be extended for existing units that manufacture reserved items. For such units complete exemption may be granted up to a turnover of Rs. 50 Lakh. The eligibility turnover limit may remain for these units at Rs. 3 crore. An investment limit of Rs. 25 Lakh for tiny units was suggested.

7. Use of website and Internet to facilitate more communication between the SSI's as technology
centers could help identify markets, and build a network among potential small entrepreneurs.

8. Setting up of consultancies run by private bodies for providing better direction to small investors.°

On the basis of committee recommendations the Government has raised investment limit for SSI's from Rs. 60 Lakhs to Rs. 300 Lakhs and for tiny units from Rs. 5 Lakhs to Rs. 25 Lakhs.

**Kapoor Committee**

In December 1997 RBI constituted a one man high level committee for credit under the chairmanship of Shri S. L. Kapoor, former secretary (SSI), Government of India to suggest measures for improving the delivery system and simplification of procedures for credit to small scale industrial sector. The committee submitted its report to RBI on 30th June 1998.

**Recommendations of the committee**

1. Special treatment to smaller units among small industries.
2. Enhancement in the quantum of composite loans.

3. Removal of procedural difficulties in the path of SSI advances.

4. Sorting out issues relating to mortgages of land including removal of stamp duty and permitting equitable mortgages.

5. Allowing access to Industrial Development Bank of India (SIDBI) for refinancing SSI loans and low cost funds.

6. Non-obtaining of collateral for loans up to 2 Lakhs.

7. Setting up of a collateral reserve fund to provide support to first party guarantees.

8. Setting up of development fund for developing industrial areas in and around metropolitan and urban areas.

9. Giving statutory powers to state level inter-institutional committee (SUIC).

10. Change in the definition of sick units.

11. Setting up of a separate guarantee organization and
opening of thousand additional specialized branches; and

12. Enhancement of SIDBI’s role and status to match with that of National Banks for Agriculture and Rural Development (NABARD).

Kapur committee has made 126 recommendations out of which RBI has already accepted 35 recommendations for implementation.8

Review of Earlier Studies:

The literature on the subject is so vast and varied that it is impossible to discuss all. However, some important studies are briefly reported.

1. W. H. Beaver9 in 1966 studied “Financial ratios as predictors of failure”, by using ratio analysis and sophisticated quantitative techniques. His study is based on 158 firms, 50% failed, and 50% successful. The data is in the form of balancesheet and profit and loss A/c of 10 years from 1954 to 1964. He divides ratios into six categories and value of ratios is arranged separately in ascending order and each
ratio has a cut-off point with minimum percentage of incorrect prediction. He concluded, if the ratio is less than cut-off point, the firm is treated as fail and if more than cut-off point, it is treated as successful. He defines failure of business as defaulting on interest payment of its debt, overdrawing its bank accounts or declaring bankruptcy.

2. “Financial ratios, discriminant analysis and prediction of corporate bankruptcy” is a study based on multivariate model by Edward Altman. Altman adopted the multiple discriminant analysis (M.D. A.) statistical technique. R. A. Fisher first used this technique in 1930 in his study. Altman tried to overcome the limitation of Bearver developed model, in Beaver’s study, the emphasis was on individual signals of impending problem and was basically univariate in nature. Altman made two groups of firms viz. bankrupt and non-bankrupt. He tested 22 ratios and classified these into 5 groups. Out of these 22 ratios, finally, he selected five ratios which were transformed into models and the discriminant score
or Z value was obtained with the help of discriminate function and Z score was used for classifying the firm. His conclusion was that those firms which have above Z-score of 2.99 (cut-off point) were non-bankrupt.

Altman used two more techniques in his study, ‘F’ test to find out the individual discriminating ability of the variable and scaled vector to determine the relative contribution of each variable to the total discriminating power function and interaction between them.

Finally he suggested that the Z-score of 2.675 was the best cut-off point and this model could be used in the appraisal of loan application.

Edward B. Deakin in his study “A Discriminant Analysis of Predictors of Business Failure,” Tries to develop a model which is alternative of Beaver and Altman. His methodology was similar to that adopted by Beaver either choosing of firm or analysis data. He tested the same data as used by Beaver.
Deakin defines failed firms as those, which experienced bankruptcy, insolvency or were liquidated for the benefit of creditor. Spearman co-efficient of correlation was used to indicate the order of predictive power of the ratios. The 14 ratios used by Beaver were put in to discriminant analysis. The output from programme consisted of a set of discriminant weights, which indicated that linear combination of the variable maximizes the difference between the groups. The scale vector indicates the relative contribution of each variable (ratio).

He suggested that the application of statistical techniques, particularly discriminant analysis can be used to predict business failure from accounting data as per as three years in advance with a fairly high degree of accuracy.

4 L. C. Gupta's study "Financial ratios for monitoring corporate sickness"\(^1\) is actually based on industrial credit and investment corporation of India (ICICI) sponsored study on "Financial ratios as forewarning indicators of corporate sickness" published in 1979
and later in book form in 1983. He tested 25 profitability ratios and 31 balance sheet ratios and finally concluded that only six ratios, 4 profitability, and 2 balance sheet ratios as the best ratio to predict sickness prior to event.

"Predicting corporate sickness" Ph.D. thesis by Avinash Paranjape developed a mathematical model on the basis of discriminant analysis technique. The study is aimed at developing an early warning system. He has also examined the institutional and legal matters behind this phenomenon. In his model 16 financial ratios were put to test and concluded, four ratios as having predictive ability.

V. S. Kaver's work "Financial ratios as predictors of borrower's health." published in 1980 has established the predictive ability of ratios based on balance sheets and loss account of firm. Firms, which have accounts in nationalized commercial banks in Bombay and Thane area were selected and on the basis of random sampling 200 were chosen. These 200 units were divided into three categories such as
goods account, irregular account and sick accounts. Based on their practices of the interest and loan 22 ratios are categorized in 5 groups. Keeping in view their performance in statistical test and usefulness to bankers, it was ascertained that 5 ratios were having discriminating ability to classify the firm as Good; irregular and sick.

Management and monitoring of industrial sickness” by S. S. Srivastave and R.A. Yadav\textsuperscript{15} published in 1986, has empirically tested and identified the financial ratios as indicators of industrial sickness’. Their sample is based on 76 companies from medium and large scale sector, out of which 50% are sick units. They have tried 36 ratios which have predictive power in the multiple discriminant functions. Apart from financial ratios they have also used non-financial parameters for predicting industrial sickness.

Bidani and Mitra\textsuperscript{16} in their book entitled “Industrial Sickness Identification and Rehabilitation” have stated that industrial sickness develops gradually and is not an overnight phenomenon, but the financial
institutions are usually kept in dark till the concern enters in the critical stage. If the financial institutions are taken into confidence at the initial stage, the diagnosis and treatment would certainly become easier.

Whether a unit is sick or not, is viable sick or not, is no doubt, a useful exercise for industrial development. In the past various studies were conducted and all of them have given their own views for evaluating performance of units. But the basic question is, why does this situation arise? What is the root cause of sickness? Why are financial agencies responsible for sickness? This and more is the need of the hour to be studied.

**Need and Scope of the Study:**

Jammu and Kashmir's disturbed conditions have pushed back the state to the 23rd position in the list of annual income rate from 6th before 80s.\(^{17}\) Insurgency has given a shattering blow to the developmental process and the worst affected is small-scale industry. Geographical location and climatic condition of state is such that it is
impossible for the people to depend upon agriculture only. SSI's are the only hope for people but due to political disturbance most of the units are on closure-stage. The number of sick units is increasing day by day. Almost every day problems faced by SSI's are discussed in local newspapers. In spite of so many incentives and packages available, evidence shortage of financial resources is the main cause of sickness.

The focus of the study is on the problems faced by SSI units in J&K, in spite of the fact that various incentives, packages, schemes are available to these units. The position is deteriorating day by day. The deteriorating factor is also evident from Jammu & Kashmir's finance minister's budget speech on March 1998 that "out of 35641 only 1000 units are functional while 8500 of these are non existent, while subsidy and financial assistance for them has already been drawn".  

The span of study is spread over post militancy and post liberalisation period. The study has been limited upto 31.3.1998, because of prevailing situation of administrative and political disorder, which has
handicapped industrial offices and it is difficult to collect data. However, all efforts have been made to include latest and necessary information wherever required. This is the main reason that in certain places data of short period has been mentioned.

A special nursing treatment is most urgently required to save small-scale industry from calamity. This could only be possible if we are able to exactly pin point problems and take remedial steps.

There is need of such study, which has particular relevance and significance for small industrial units, which can pinpoint the causes of sickness in small scale industry.

Various studies in past on small-scale industries have been done. Some important studies have been reviewed this chapter under review of earlier studies. These researches have helped a lot to measure, predict and suggest remedial measures for solving problems. The present study has been undertaken with the intention to pinpoint main reasons behind sickness, and how to use existing available resources to the maximum extent.
Objectives of the Study:

The specific objectives of the study are as follows.

1. To assess major financial problems of small-scale units in Jammu and Kashmir.

2. To identify various sources of finance available to small-scale units and assess their progress.

3. To find out problems faced by the units while obtaining finance from institutional and non-institutional sources.

4. Analysis of the policies of Government for small-scale units.

5. To assess the remedies to overcome the financial problems of the small-scale units.

Methodology:

The study is based on primary and secondary data.

(a) Primary Data:

Data has been collected from selected centers of
production/financial institutions/various departments linked with small-scale industries. Necessary information for the study was collected through questionnaire, personal interviews, and discussions with managers/owners of small-scale units and chief officers of concerned departments. Comments and suggestions were also invited from managers/owners, officials of the Government/non-Government agencies directly or indirectly related to the industry. The emphasis is on examining various dimensions of financial problems. Initially, a plot survey was conducted of twenty units to know the reactions of the respondents towards questionnaires. As a result of this testing, some irrelevant questions were dropped and some other relevant questions to the study were incorporated. Though the questionnaire was in English, the questions were also explained in the local language i.e. Kashmiri or Dogri to elicit correct information.

Sample: Total number of SSI registered units as on 31.3.1998 are 39436. These are engaged in various activities, out of these units only 200 units are selected for sample for different types of activities in which most
of the units are engaged. Samples have been selected from all the districts of the state on the assumption that those units which are not selected are facing the same problems. The units which are not registered with the District Industrial Office, were left out because their location and concerned data are not available.

(b) Secondary Data

The secondary data are collected from the published and unpublished documents, correspondence, and records maintained by the concerned departments at the centre, state and district level. Moreover, the study of Government policies, schemes and programmes and their implementation and progress are totally based on official records and newspaper reports.

Layout of the Study:

The present study, “Financial problems of small-scale industry with special references to Jammu and Kashmir” is divided into five chapters.

First chapter has been devoted to introduction of small-scale industries. The chapter deals with the role of SSIs in the
development of Indian economy, need of study, review literature, objectives, methodology and limitation of study.

Chapter 2 deals with perspective of SSIs of Jammu and Kashmir in which Geo-physical features, state income, resources available in Jammu and Kashmir are discussed.

Chapter 3 outlines the organizational structure and industrial policy in which apart from discussion of industrial policy and incentives available in Jammu and Kashmir, the progress of these schemes is also examined.

Financial problems faced by small scale industry in production, marketing and problems faced by entrepreneurs while financing their business has been presented in chapter-4.

The last chapter presents summary and suggestions so that the difficulties faced by entrepreneurs should be solved in order to open gateway for development of the state economy.

Limitations of the Study:

During the survey, many difficulties while collecting the
data cropped up. The problems faced in the collection of data are presented below:

1. Because of the political and administrative disorder in the state, it was very difficult to visit every nook and corner of the state. However, every possible effort was made to include the information whenever and wherever required and available.

2. The small-scale industries in Jammu and Kashmir are highly unorganized and many of these units are very small in size. Entrepreneurs are mostly uneducated, so these units do not maintained proper records viz. Cash-book, ledger, stock statement, profit and loss and balance sheet. While no stone has been left unturned to make this study authentic, however, due to above mentioned weaknesses of industry, certain shortcomings are unavoidable.

3. During the survey it has been found that a few units selected from the list of samples are closed/defunct/untraceable/de-regd. Or occupied by
security forces. As a result, smaller fresh units were later on added in sample.

4. It has been observed during survey that it was relatively difficult to collect data directly from small-scale industrial units. The entrepreneurs were reluctant to discuss matters pertaining to their business. In spite of the best efforts to convince the owner/managers that the information collected would be kept confidential and used only for the purpose of research, some owners/managers did not cooperate to the desired extent. Probably this was due to a psychological fear of fact being disclosed to various authorities it was almost impossible to overcome this apprehension in most of the cases.

In spite of all these difficulties, every effort has been made that these factors would not effect the overall findings of the study in one way or the other.
References:


4. Ibid - p. 53.


