Chapter I

INTRODUCTION
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In this chapter the need for and importance of small scale industry, definition of the small scale industry/enterprise, government policy towards small scale enterprises, development of small scale enterprises in the country and in the state during successive five plans, meaning of financial management, need for the study and statement of the problem, review of literature, objectives of the study, hypotheses, area and period of the study, universe and sample selection, collection and analysis of data, limitations of the study and organization of the thesis have been given.

1.1 Introduction

The economic development of a country primarily depends upon the establishment of industries, which require sufficient amount of capital. In a country like India, where capital is scarce and unemployment is wide-spread, growth of small scale industries is vital in order to achieve a balanced economic growth. Development of Small Scale Industries plays an important role in overall economic development of a country like India where millions of people are unemployed or underemployed. Poverty and unemployment are two burning problems of the country to-day. This sector solves these two problems by providing employment, with lower investments. According to Dr. Manmohan Singh, "the key to our success in employment lies in the success of manufacturing in the small scale sector". The strength of small scale enterprises lies in their wide spread dispersal in rural, semi-urban and urban areas; fostering entrepreneurial base; shorter gestation period; and equitable distribution of income and wealth.

Having recognized the significance of SSI sector, the Government of India has set up various agencies and institutions at different levels - central, state and local, pursuing the policy of promotion and protection of this sector since independence. The Government is offering several incentives and concessions for the purpose. According to the economic survey 2001-2002, "The small scale sector has played a
very important role in the socio-economic development of the country during the past 50 years. It has significantly contributed to the overall growth in terms of gross domestic product (GDP), employment generation and exports. The performance of the small scale sector therefore has a direct impact on the growth of the overall economy. In the wake of economic reforms and liberalization programs launched by the government various measures have been taken from time to time to improve the productivity, efficiency and competitiveness of the small scale sector.

1.2 Definition of Small Scale Industry

Ever since the official recognition of small scale industry by independent India in 1950, the definition of small scale industry has been revised several times taking into consideration the emerging changes in economic and industrial environment of the country. A brief review of small scale industry definition over the years since 1955 brings to highlight the changes effected with regard to the scope of small scale industry.

In 1955 the small scale industries board defined small industry as a unit employing less than 50 persons if using power and less than 100 persons without the use of power, and with capital assets not exceeding Rs. 5 lakhs. The ministry of commerce and industry modified this definition in 1959. Under the modified form, the restriction relating to employment was made applicable to each shift separately. So that a unit working double or triple shift could get the benefit of government policies even when it employed double or triple the number of workers admitted in the definition.

Owing to the development of small scale industries, it was felt necessary to alter the definition once again in 1960. In the modified definition, the employment condition was removed altogether. As per this definition, small scale industries include all the industrial units with a capital investment of not more than Rs.5 lakhs, irrespective of the number of persons employed.

In the interest of developing viable ancillary units in 1962, a relaxation of Rs.5 lakhs limit in fixed capital has been made in respect of such small scale units, which supply parts and components to certain specified large scale industries. A limit of
Rs.10 lakhs has been adopted for this purpose\(^4\). Thus, a new category of small scale industries was born. These units were defined as ancillary units and the investment limit was fixed at Rs.10 lakhs instead of Rs.5 lakhs for the small scale units.

In 1966 as a consequence of devaluation of Rupee which has increased the cost of imported machines, on the recommendations of the small scale industries board, the government of India has raised the investment limit from Rs.5 lakhs to Rs.7.5 lakhs for non-ancillary units irrespective of the number of persons employed and it was retained at Rs.10 lakhs for ancillaries. Capital investment for this purpose would mean investment in plant and machinery only\(^5\).

In the context of rising prices of capital equipment in 1974 the small scale and ancillary industries were redefined once again. The investment ceiling in plant and machinery has been raised from Rs.7.5 lakhs to Rs.10 lakhs and from Rs.10 lakhs to Rs.15 lakhs on small and ancillary units respectively\(^6\). The tiny unit was recognized by the Industrial Policy Resolution of 1977. Tiny industries were defined as those having investment of not more than Rs.1 lakh and situated outside the metropolitan areas\(^7\).

Once again in 1980 the Government revised the definition of tiny, small and ancillary industries. Tiny units were those having investment in plant and machinery not exceeding Rs.2 lakhs with population of less than 50,000. Small units were those having investment in plant and machinery not exceeding Rs.20 lakhs and ancillary units were those having investment in plant and machinery not exceeding Rs.25 lakhs\(^8\). In 1985 the capital limit of small scale units was raised from Rs.20 lakhs to Rs.35 lakhs and in case of ancillary units from Rs.25 lakhs to Rs.45 lakhs\(^9\). In 1991 the investment ceiling was raised once again from Rs.35 lakhs to Rs.60 lakhs for small scale units, from Rs.45 lakhs to Rs.75 lakhs for ancillary units and Rs.2 lakhs to Rs.5 lakhs for tiny units\(^10\).

1.2.1 Present Definition of SSIs

Section 7 (1) of the Micro, Small and Medium Enterprises Act – 2006 takes into account ‘enterprise’ in place of erstwhile ‘industry’. Enterprises have been
classified broadly into two categories: (1) Enterprises engaged in the manufacture / production of goods, and (2) Enterprises engaged in providing / rendering services. The two categories have again been classified in the following manner in terms of investment in plant and machinery (excluding land and buildings).

**Table-1.1**

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Size of Unit</th>
<th>Investment Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Micro Enterprises</td>
<td>Up to Rs. 25 lakhs</td>
</tr>
<tr>
<td>2</td>
<td>Small Enterprises</td>
<td>Rs.25 lakhs to Rs.5crores</td>
</tr>
<tr>
<td>3</td>
<td>Medium Enterprises</td>
<td>Rs.5crores to Rs.10crores</td>
</tr>
</tbody>
</table>

**Table-1.2**

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Size of Unit</th>
<th>Investment Limit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Micro Enterprises</td>
<td>Up to Rs. 10 lakhs</td>
</tr>
<tr>
<td>2</td>
<td>Small Enterprises</td>
<td>Rs.10 lakhs to Rs.2crores</td>
</tr>
<tr>
<td>3</td>
<td>Medium Enterprises</td>
<td>Rs.2crores to Rs.5crores</td>
</tr>
</tbody>
</table>

*Source: www.smallindustryindia.com*

### 1.3 Small Scale Industry and Government Policy

The salient features of various Industrial Policy Resolutions in respect of small scale industry have been summed up so as to trace how small industry has been promoted and protected by the Government over the last five decades.

#### 1.3.1 Industrial Policy Resolution 1948

The importance of small scale industries was fully recognized after the conference on "Industrial Development" held in New Delhi in December 1947. The Cottage Industries Board was set up as an advisory body. The approach of the Government of India towards small scale sector was emphatically reflected in the Industrial Policy Resolution of 6th April, 1948. The Policy Resolution outlined that the cottage and small scale industries have a very important role in the national economy, offering as they do scope for individual, village, or co-operative enterprises and means for the rehabilitation of displaced persons." The objectives specified for small scale and village industries in this Policy Resolution are:
to meet a substantial part of the increased demand for consumer goods and simple producer goods through small industry;

(ii) to create large scale employment at relatively low capital costs;

(iii) to mobilize unused resources of capital and skills;

(iv) to ensure a more equitable distribution of national income including the spread of industries over different regions of the country; and

(v) to counteract tendency towards concentration of economic power by widening opportunities for new entrants to small sized units.

Thus, the thrust of the policy in respect of small industry was to generate employment on a very large scale with low capital cost so as to ensure equitable distribution of national income.

1.3.2 Industrial Policy Resolution, 1956

The Karve Committee and the International Perspective Planning Team have envisaged decentralized industrial development to avoid the evils of concentration. The Industrial Policy Resolution of 1956 has fully endorsed this recommendation. The decentralization of industry formed the essence of the policy towards small scale industry in 1956 Resolution. The Resolution resolved that the State has been following a policy of supporting cottage and small scale industries by restricting the volume of production in the large scale sector, by deferential taxation or by direct subsidy. The aim of the State Policy was to ensure that the decentralized sector acquired sufficient vitality to be self-supporting and its development be integrated with that of the large scale industry. The objectives for small industry specified in the policy were:

(i) to provide immediate large scale employment opportunities with low capital cost per unit of labour;

(ii) to provide opportunities for encouraging new entrepreneurs; and

(iii) to mobilize small capital resources and skills has might otherwise remain unutilized.

1.3.3 Industrial Policy Statement, 1977

Fifth Five Year Plan (1974-1979) emphasized the need to continue the policy measures of protection and incentives to small industry. This was reiterated in the
Industrial Policy Statement of 23rd December, 1977. The main thrust of the Industrial Policy Statement, 1977 was on effective promotion of cottage and small scale industries widely dispersed in rural areas and small towns. It was the Policy of the Government that whatever can be produced by small and cottage industries must only be so produced13. It is obvious that this Policy Resolution demanded a shift from large sector to the small and cottage sector.

1.3.4 Industrial Policy Statement of 1980

The industrial Policy Statement of 23rd July, 1980 emphasized the role of ancillary development in the small scale sector, modernization of small scale industries and ensuring rapid growth in backward areas14. The concept of nucleus plants with a view to upgrading the technology of small units was emphasized. The establishment of nucleus plants was to be supported by a suitable system of incentives. The basic objective of this policy was to ensure a balanced growth of economy where large, medium, and small and cottage industries could play their respective roles in the growth of national economy.

1.3.5 Industrial Policy Statement of 1990

The policy stressed the need for the promotion of small scale and agro–based industries. It also emphasized changing the procedure for grant of industrial approvals. The core decision of this Policy was to ensure adequate and timely flow of credit for small scale industries through Small Industries Development Bank of India (SIDBI), commercial banks and other financial agencies.

1.3.6 Industrial Policy 1991

The Union Government announced new Industrial Policy on 6th August, 1991. The salient features of this Policy document are:

(i) The promotion of small scale, cottage and village industries by enhancing the cutoff limits of investment in plant and machinery for small scale and tiny sector industrial units. The investment limits as per this policy in respect of small scale, ancillary and tiny sector industries are Rs.60 lakhs, Rs. 75 lakhs and Rs.5 lakhs respectively.
(ii) The provision of cheaper credit and other facilities, and to pay more attention to the development of handloom, handicraft, khadi and other village industries;

(iii) The concept of “Economic Federalism” has evolved and a few nucleus units were set up in identified industrially backward districts to help and develop small and ancillary units by providing raw material and also assembling and marketing facilities through such units; and

(iv) The gradual move towards liberalization and marketisation.

Table 1.3
Performance of Small Scale Enterprises During 1994–2007

<table>
<thead>
<tr>
<th>Year</th>
<th>Regd. Units (lakhs)</th>
<th>Unregd. Units (lakhs)</th>
<th>Total</th>
<th>Production (Rs. Crores at current prices)</th>
<th>Production (at constant prices)</th>
<th>Employment (in lakhs)</th>
<th>Exports (Rs. Crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994-95</td>
<td>11.61</td>
<td>67.99</td>
<td>79.60 (4.1)</td>
<td>122210 (23.07)</td>
<td>109116 (10.4)</td>
<td>191.40 (4.8)</td>
<td>29068 (14.9)</td>
</tr>
<tr>
<td>1995-96</td>
<td>11.57</td>
<td>71.27</td>
<td>82.84 (4.1)</td>
<td>148290 (21.03)</td>
<td>121649 (11.5)</td>
<td>197.93 (3.4)</td>
<td>36470 (25.5)</td>
</tr>
<tr>
<td>1996-97</td>
<td>11.99</td>
<td>47.22</td>
<td>64.67 (4.1)</td>
<td>197840 (13.06)</td>
<td>135380 (11.3)</td>
<td>205.86 (4.0)</td>
<td>39248 (7.6)</td>
</tr>
<tr>
<td>1997-98</td>
<td>12.04</td>
<td>77.67</td>
<td>89.71 (4.1)</td>
<td>19178 (3.16)</td>
<td>147824 (9.2)</td>
<td>213.16 (3.5)</td>
<td>44442 (13.2)</td>
</tr>
<tr>
<td>1998-99</td>
<td>12.00</td>
<td>86.31</td>
<td>98.36 (4.1)</td>
<td>212901 (12.9)</td>
<td>149407 (8.0)</td>
<td>220.55 (3.5)</td>
<td>48979 (10.2)</td>
</tr>
<tr>
<td>1999-00</td>
<td>12.32</td>
<td>84.83</td>
<td>97.15 (4.1)</td>
<td>234255 (10.0)</td>
<td>170709 (7.1)</td>
<td>229.10 (3.9)</td>
<td>54200 (10.7)</td>
</tr>
<tr>
<td>2000-01</td>
<td>13.10</td>
<td>88.00</td>
<td>101.10 (4.1)</td>
<td>261289 (11.5)</td>
<td>184428 (8.0)</td>
<td>239.09 (4.4)</td>
<td>69,793 (28.8)</td>
</tr>
<tr>
<td>2001-02</td>
<td>13.75</td>
<td>91.46</td>
<td>105.21 (4.1)</td>
<td>282270 (8.0)</td>
<td>195613 (6.1)</td>
<td>249.09 (4.2)</td>
<td>71,244 (2.1)</td>
</tr>
<tr>
<td>2002-03</td>
<td>14.68</td>
<td>94.81</td>
<td>109.49 (4.6)</td>
<td>311993 (10.5)</td>
<td>210636 (7.7)</td>
<td>260.13 (4.9)</td>
<td>86,013 (20.7)</td>
</tr>
<tr>
<td>2003-04</td>
<td>15.54</td>
<td>98.41</td>
<td>113.95 (4.7)</td>
<td>357733 (14.7)</td>
<td>228730 (8.6)</td>
<td>271.36 (4.3)</td>
<td>97,644 (13.5)</td>
</tr>
<tr>
<td>2004-05</td>
<td>16.57</td>
<td>102.02</td>
<td>118.59 (4.1)</td>
<td>418263 (16.9)</td>
<td>251511 (10.0)</td>
<td>282.91 (4.3)</td>
<td>124,417 (27.4)</td>
</tr>
<tr>
<td>2005-06</td>
<td>19.03</td>
<td>104.12</td>
<td>123.42 (4.1)</td>
<td>N.A</td>
<td>418884 (12.3)</td>
<td>299.85 (4.3)</td>
<td>150,242 (20.8)</td>
</tr>
<tr>
<td>2006-07*</td>
<td>20.32</td>
<td>108.12</td>
<td>128.44 (4.1)</td>
<td>N.A</td>
<td>471663 (12.6)</td>
<td>312.52 (4.2)</td>
<td>N.A</td>
</tr>
</tbody>
</table>

Source: Economic Survey 2004-05 to 2007-08 and www.indiabudget.inc.in
Notes: @ Production for the Year 1995-06 and 2006-07 is showed at 2001-02 prices.
* The Data for the Year 2006-07 is projected
The new Industrial Policy of 1991 contemplated several changes relating to small scale sector with an intention of making small enterprises economically viable and financially strong. The new policy has proposed several measures for ensuring supply of adequate raw material to SSI units. It also proposed to initiate steps for the creation of an effective marketing mechanism for SSI products. The Small Industry Development Organization was directed to act as nodal agency for the export of SSI products. With regard to financial support, the policy envisaged adequate flow of credit to this sector, equity participation to the extent of 24 per cent in SSI units by non-SSI undertakings, provision for the supply of risk capital through limited partnership and measures to ensure speedy payments arising from the sale of products of SSI sector. For the viability of small industry, its production programmes were desired to be integrated with large private and public sector units. Tiny sector is allowed easy access to institutional finance.

1.4 Development of Small Scale Enterprises under the Five Year Plans

In a labour abundant, capital scarce country like India, it is small scale industry that constitutes the backbone of its economic structure. They have further locational flexibility which is an effective instrument in achieving a wide dispersal of industries. For the promotion and development of small scale industries, the Government of India has taken several steps in its various plan periods within the framework of the Industrial Policy Resolutions.

Since the launching of five-year plans in the country the SSI sector has grown at a phenomenal rate. This sector comprises 95 per cent of the total industrial units in the country, accounting for 40 per cent of the total industrial production, 34 per cent of the national exports, and 250 lakhs persons of industrial employment. So, this sector emerged as a bosom and dynamic part of the Indian economy.

1.4.1 First Five Year Plan

The First Five Year Plan initiated the establishment of All-India Boards to advise and assist in the formulation of the programmes of development of small scale industries, including sericulture and coir. The allocation made for its development was nominal at Rs.5.20 crores out of plan outlay Rs.1,960 crores. The need for provision of adequate finance for these industries was also emphasized.
1.4.2 Second Five Year Plan

In the Second Five Year Plan the allocation for the development of small scale industry was increased to Rs. 56 crores out of a total plan outlay of Rs. 4,672 crores. It pleaded for the development of small scale industry as an ancillary sector to provide precision parts and components to the large scale units which should be prohibited from including such items in their production programmes.

1.4.3 Third Five Year Plan

In the Third Five Year Plan a total outlay of Rs. 264 crores was proposed for programmes of village and small scale industries. Its thrust was to reduce progressively the role of subsidies, sales rebates and sheltered markets; to improve the productivity of workers; to promote the growth of industries in rural areas and in small towns.

1.4.4 Fourth Five Year Plan

The Fourth Five Year Plan proposed to spend about Rs.293 crores on the development of village and small scale industries besides about Rs. 500 crores, expected to be invested by banking institutions and through individual sources. It was estimated that the development programme for these industries would provide part time employment to about 11 million persons and full time employment to about 16 lakh persons during the Fourth Five Year Plan.

1.4.5 Fifth Five Year Plan

The Fifth Five Year Plan, in essence, continued the programme enunciated in the previous plan. Major emphasis was placed on the development of ancillaries. The SSI programme was reoriented to set up the production of some of the basic and essential articles for the masses and of the products which have a larger potential for exports. The plan provided a total outlay of Rs. 10,200 crores on organized industries and mining and Rs. 535.03 crores for village and small scale industries. This investment in the industrial sector constituted 26 per cent of the total public outlays.

1.4.6 Sixth Five Year Plan

The objectives of Sixth Five Year Plan in regard to small scale industries sector were to bring about improvement in the levels of production and income,
particularly of artisans. This was to be done through measures such as up gradation of technology and skills, and better marketing of goods produced in the sector. The aim was to make small scale industrial sector a viable sector with decreasing dependence on subsidies and help it to play an important role in the field of exports. The outlay on village and small industries was stepped up from Rs.535.03 crores in the Fifth Plan to Rs. 1,780.45 crores in the Sixth Plan\textsuperscript{20}.

1.4.7 Seventh Five Year Plan

The Seventh Five Year Plan has focused attention on the up gradation of technology. During this plan period the production in the small scale sector was targeted to increase from Rs. 50,520 crores to Rs. 80,220 crores (at 1984–1985 prices), exports from Rs.2,350 crores to Rs.4,140 crores and employment from 90 lakh persons to 119 lakh persons\textsuperscript{21}. The financial outlay has been fixed at Rs. 2,752.74 crores.

**Table 1.4**

*Small Scale Enterprises under the Successive Five Year Plans (Rs. In. Crores)*

<table>
<thead>
<tr>
<th>Plan Period</th>
<th>Total Outlay</th>
<th>Small Scale Enterprises</th>
<th>Percentage Share of Small Scale Enterprises to Total Outlay</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Plan (1951-56)</td>
<td>1,960</td>
<td>5.20</td>
<td>0.27</td>
</tr>
<tr>
<td>Second Plan (1956-61)</td>
<td>4,672</td>
<td>56.00</td>
<td>1.20</td>
</tr>
<tr>
<td>Third Plan (1961-66)</td>
<td>8,577</td>
<td>113.06</td>
<td>1.32</td>
</tr>
<tr>
<td>Annual Plan (1966-69)</td>
<td>6,625</td>
<td>53.48</td>
<td>0.81</td>
</tr>
<tr>
<td>Fourth Plan (1969-74)</td>
<td>15,779</td>
<td>96.19</td>
<td>0.61</td>
</tr>
<tr>
<td>Fifth Plan (1974-79)</td>
<td>39,426</td>
<td>221.74</td>
<td>0.56</td>
</tr>
<tr>
<td>Annual Plan (1979-80)</td>
<td>12,177</td>
<td>104.81</td>
<td>0.86</td>
</tr>
<tr>
<td>Sixth Plan (1980-85)</td>
<td>1,09,292</td>
<td>616.10</td>
<td>0.56</td>
</tr>
<tr>
<td>Seventh Plan (1985-90)</td>
<td>1,80,000</td>
<td>1120.51</td>
<td>0.62</td>
</tr>
<tr>
<td>Eighth Plan (1992-97)</td>
<td>4,34,100</td>
<td>6334.00</td>
<td>1.46</td>
</tr>
<tr>
<td>Ninth Plan (1997-2002)</td>
<td>8,59,200</td>
<td>1580.42</td>
<td>0.18</td>
</tr>
<tr>
<td>Tenth Plan (2002-2007)</td>
<td>9,45,800</td>
<td>2080.00</td>
<td>0.22</td>
</tr>
</tbody>
</table>

**Sources:**


(ii) from table 12.3 of the sixth plan document and table 4.3, p. 104 of the Seventh Plan Document, Vol. II.

(iii) Data relating to Eighth Plan have been taken from Agrawal, A.N., Indian Economy, Wishwa Prakashan publications, New Delhi, 1996, pp.383-680.

(iv) Data relating to Ninth and Tenth plan have taken from http://planningcommission.nic.in/plans/planrel/fiveyr/10th/volume2/v2_ch5_4.pdf
1.4.8 Eighth Five Year Plan

One of the areas of priority of the Eighth Plan was generation of adequate employment to achieve full employment level by the turn of this century through small industry. It also envisaged the entry of SSI sector into the service sector, which is expected to play a major role in generating employment during the plan period. It was desired to make official structure free from innumerable rules, regulations and bureaucratic controls. Further, research and innovation in the tools and techniques of traditional occupation, including those of rural artisans, was to be encouraged and their extensive adoption was desired to be induced. The Eighth Plan allocated a sum of Rs. 6,334 crores for the development of village and small scale industries.

1.4.9 Ninth Five Year Plan

Ninth Five Year Plan was finally approved by the National Development Council in February 1999; nearly two years after its implementation from April 1st 1997. The ninth five year plan aimed to achieve 7.00 per cent annual growth rate in respect of gross domestic product. In order to achieve the goals set for the ninth five year plan the Government designed a suitable policy with the following specific objectives.

(i) Priority to agriculture and rural development with a view to generate adequate productive employment and to eradicate poverty;
(ii) Containing the growth of population;
(iii) Strengthening efforts to build self-reliance.

The total public sector outlay was Rs. 8,59,200 crores at 1996-1997 prices. This represented a step up of 33 per cent in real terms over the approved eighth plan outlay of Rs. 4,34,100 crores.

1.4.10 Tenth Five Year Plan

The tenth five year plan aimed to achieve 8.00 per cent annual growth rate in respect of gross domestic product. In order to achieve the goals set for the tenth five year plan the Government designed a suitable policy with the following specific objectives.
(i) Reduction of poverty ratio by 5 percentage points by 2007 and by 15 percentage points by 2012;
(ii) Providing gainful high-quality employment to the additional labour force over the Plan period;
(iii) Agricultural development must be viewed as a core element of the Plan since growth in this sector was likely to lead to the widespread benefits, especially to the rural poor including agricultural labour.
(iv) This plan stress upon the effective implementation of the NPA. (National Plan of Action).

The total public sector outlay was Rs. 9, 45,800 crores at 2002-2003 prices. This represented a step up of 10 per cent in real terms over the approved ninth plan outlay of Rs. 8,59,200 crores.

1.5 Development of Small Scale Enterprises in Plan Periods in Andhra Pradesh

The Small Scale industries play a very significant role in the economy of Andhra Pradesh. The objective of poverty eradication can be achieved to a great extent through providing self-employment. Through self-employment one can hope to provide opportunities for earning modest incomes for the growing labour force. These industries contribute substantially to income generation in the country.

1.5.1 First Five Year Plan (1951 – 56)

During the first five year plan, the total plan outlay for the State was Rs.96.78 Crores. Of which only 0.18 per cent (i.e., 17.96 lakhs) was allotted to small scale industries.

1.5.2 Second Five Year Plan (1956-61)

The total outlay of the second five year plan was Rs.180.60 crores, of which, an amount of Rs.1,152.23 lakhs i.e., 6.3 per cent was allotted to small scale industries (Table 1.5). The industrial policy resolution of 1956 rightly emphasized the need for strengthening industrial cooperatives for the development of small scale industries. With this view, about 35 to 40 small scale industries (SSIs) were proposed to be started to stimulate production of consumer goods in the State. Close collaboration was, however, expected to be maintained with SSI Corporation, which was setup by
the Government of India to encourage the development of SSIs. Three industrial estates were established at Vijayawada, Visakhapatnam and Samarlakota. With a view to provide working efficiency, to maintain uniform standards, production-cum-training centers were also established during the second five year plan.

1.5.3 Third Five Year Plan (1961-66)

The third five year plan made a provision of Rs.531.75 lakhs for small scale industries, which was 0.5 per cent in the total outlay of 352.42 crores. In order to provide better employment opportunities to the rural entrepreneurs much attention was paid during the plan period (Table 1.5).

In order to assist the small scale industrialist by way of supplying raw materials and machinery, marketing their products and also to organize production against assured orders by securing contracts etc, it was proposed to organize Small Scale industrial Development Corporation (SSIDCO) with chain stores at Hyderabad. The total expenditure on account of the scheme, both recurring and non-recurring, was expected to be Rs.2 Lakhs. During the third plan period, only one industrial estate in each district was established, besides 18 rural industrial estates with a provision of Rs.220 lakhs.

1.5.4 Fourth Five Year Plan (1969-74)

The total outlay of the fourth five year plan was Rs. 448.8 crores. Of which, an amount of Rs.226.10 lakhs i.e., 0.50 per cent was allotted to small scale industries (Table 1.5). The objectives and strategies of the Fourth Plan were as follows:

(i) To promote a number of small scale industries primarily with the object of initiating a process of diversification and industrialization of economy in various parts of the State;

(ii) To promote labour intensive small scale industries, especially in scarcity areas with a view to provide employment and balanced regional development.

(iii) To encourage small scale industries in important industrial centres to enable the development of small scale industries as ancillary to large scale industries.
1.5.5 Fifth Five Year Plan (1975-80)

The total outlay of the fifth five year plan was Rs. 1,004.28 crores, in which, an amount of Rs. 118.53 lakhs (i.e., 1.1 per cent) was allotted for small scale industries in the State (Table 1.5). The State Government proposed a scheme for setting up of an Infrastructure Development Corporation for developing infrastructural facilities for large and medium scale industries. The proposed corporation would be take up the construction of industrial estates with the assistance of financial institutions.

1.5.6 Sixth Five Year Plan (1980-85)

The total outlay of the sixth five year plan was Rs. 3,243.59 crores, of which only 1.2 per cent i.e., Rs. 4,012 lakhs allocated for small scale industries (Table 1.5). During the plan period the following schemes were proposed to be taken up in the State of Andhra Pradesh.

(i) Implementation of DIC programme in all the districts;
(ii) Establishment of industrial testing laboratory at Vijayawada and field stations for graphite crucible industry at Rajahmundry;
(iii) Strengthening the Central Food Technological Research Institute, Zonal Experimental Stations at Hyderabad and expansion of Oil Technological Research Institute, Anantapur.

1.5.7 Seventh Five Year Plan (1985-90)

The total outlay of the seventh five year plan was Rs. 50 crores. Of which, 12,700 lakhs (1.7 per cent) were allocated to small scale industries (Table 1.5).

1.5.8 Eight Five Year Plan (1992-97)

The total outlay of the Eighth five year plan was Rs. 10,500 crores of which, 1085 lakhs (1.03 per cent) were allocated to small scale industries.

1.5.9 Ninth Five Year Plan (1997-2002)

The total outlay of the Ninth five year plan was Rs. 25,15,000 crores of which, 39,448 lakhs (1.56 per cent) were allocated to small scale industries.
1.5.10 Tenth Five Year Plan (2002-2007)

The total outlay of the Tenth five year plan was Rs. 46,61,400 Crores of which, 51,163 lakhs (1.09 per cent) were allocated to small scale enterprises.

Table 1.5
Plan Outlay for Small Scale Enterprises in Andhra Pradesh

<table>
<thead>
<tr>
<th>Plan Period</th>
<th>Public Sector outlay (Rs.Crores)</th>
<th>Industries as a whole (Rs.Lakhs)</th>
<th>Small Scale Enterprises Outlay (Rs.Lakhs)</th>
<th>% of Col.4 to Col.2</th>
<th>% of Col.4 to Col.3</th>
<th>% of Col.3 to Col.2</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Five Year Plan (1951-56)</td>
<td>96.70</td>
<td>79.82</td>
<td>17.69</td>
<td>0.18</td>
<td>22.18</td>
<td>0.82</td>
</tr>
<tr>
<td>Second Five Year Plan (1956-61)</td>
<td>180.60</td>
<td>1425.95</td>
<td>1152.23</td>
<td>6.30</td>
<td>80.80</td>
<td>7.00</td>
</tr>
<tr>
<td>Third Five Year Plan (1961-66)</td>
<td>352.42</td>
<td>1113.34</td>
<td>531.15</td>
<td>1.50</td>
<td>47.16</td>
<td>3.16</td>
</tr>
<tr>
<td>Annual Plans (1966-69)</td>
<td>234.06</td>
<td>561.78</td>
<td>148.58</td>
<td>0.63</td>
<td>26.45</td>
<td>2.40</td>
</tr>
<tr>
<td>Fourth Five Year Plan (1969-74)</td>
<td>448.87</td>
<td>1051.64</td>
<td>226.10</td>
<td>0.50</td>
<td>2.50</td>
<td>2.30</td>
</tr>
<tr>
<td>Fifth Five Year Plan (1974-79)</td>
<td>1004.28</td>
<td>2740.35</td>
<td>1185.23</td>
<td>1.10</td>
<td>43.27</td>
<td>2.70</td>
</tr>
<tr>
<td>Sixth Five Year Plan (1980-85)</td>
<td>3243.59</td>
<td>13278.00</td>
<td>4012.00</td>
<td>1.20</td>
<td>30.22</td>
<td>4.99</td>
</tr>
<tr>
<td>Seventh Five Year Plan (1985-90)</td>
<td>7500.00</td>
<td>4205.00</td>
<td>12700.00</td>
<td>1.70</td>
<td>30.20</td>
<td>5.61</td>
</tr>
<tr>
<td>Eighth Five Year Plan (1992-97)</td>
<td>10500.00</td>
<td>27250.00</td>
<td>1085.00</td>
<td>1.03</td>
<td>3.90</td>
<td>2.60</td>
</tr>
<tr>
<td>Ninth Five Year Plan (1997-2002)</td>
<td>25,15,000.00</td>
<td>96312.00</td>
<td>39448.00</td>
<td>1.56</td>
<td>40.95</td>
<td>3.83</td>
</tr>
<tr>
<td>Tenth Five Year Plan (2002-07)</td>
<td>46,61,400.00</td>
<td>165511.00</td>
<td>51163.00</td>
<td>1.09</td>
<td>30.91</td>
<td>3.55</td>
</tr>
</tbody>
</table>

Source: Government of Andhra Pradesh, Five Year Document – Vol.II.

1.6 Financial Management

In our present day economy, finance is defined as the provision of money at the time when it is required. Every enterprise, whether big, medium or small, needs finance to carry on its operations and to achieve its targets. Without adequate finance, no enterprise can possibly accomplish its objectives.

The term financial management can be defined as the management of flow of funds in a firm and it deals with the financial decision making of the firm. It encompasses the procurement of the funds in the most economic and prudent manner and employment of these funds in the most optimum way to maximize the return for
the owner. Raising the funds and their best utilization is the key to the success of any business organization. The financial management, as a functional area, has got a place of prime importance. It is concerned with managerial decision making in general and with the management of economic resources in particular. All business decisions have financial implications and therefore financial management is inevitably related to almost every aspect of business operations. According to Solomon, "Financial Management is concerned with the efficient use of an important economic resource, namely capital funds".

1.6.1 Goals and Functions of Finance

Corporate Financial Management deals with the decisions of a firm relating to investment, financing and dividend. To carry on business, a firm invests in tangible assets like plant and machinery, buildings and intangible assets like goodwill and patents. This comprises of the investment decision. These assets do not come free; one has to pay for them, so a company needs to tap various sources of funds including promoter's contribution. This forms the financing decision. The investment in assets generates revenues and cash flows for a specific period of time. The manager of the company can either retain cash with the company for further investment or distribute to the owner of the company — the shareholders. This constitutes the dividend decision. The fundamental financial objective of the firm is to maximize the value of the cash invested in the firm by its stockholders.

1.6.2 Evolution of Financial Management

Financial management emerged as a distinct field of study at the turn of the 20th century. Its evolution may be divided into three broad phases. They are: traditional phase, transitional phase, and the modern phase.

The traditional phase lasted for about four decades. The following were its important features:

- The focus of financial management was mainly on certain episodic events like formation, issuance of capital, major expansion, merger, reorganization, and liquidation in the life cycle of the firm.
• The approach was mainly descriptive and institutional. The instruments of financing, the institution and procedures used in capital markets, and the legal aspects of financial events formed the core of financial management.

• The outsider's point of view was dominant. Financial management was viewed mainly from the point of view of the investment bankers, lenders, and other outside interests.

The transitional phase began around the early 1940s and continued through the early 1950s. Though the nature of financial management during this phase was similar to that of the traditional phase, greater emphasis was placed on the day-to-day problems faced by financial managers in the areas of funds analysis, planning, and control. The focus shifted to working capital management.

The modern phase began in the mid 1950s and has witnessed an accelerated pace of development with the infusion of ideas from economic theory and application of quantitative methods of analysis. The distinctive features of the modern phase are:

• The central concern of financial management is considered to be a rational matching of funds to their uses so as to maximize the wealth of current shareholders.

• The approach of financial management has become more analytical and quantitative.

Since the beginning of the modern phase many significant developments have occurred in the field of finance. Many more exciting developments are in the offing making finance a fascinating and challenging field.

1.6.3 The Role of the Financial Manager

The modern day financial manager is instrumental to a company's success. As cash flows pulsate through the organization, this individual is at the heart of what is happening. If finance is to play a general management role in the organization, the financial manager must be a team player who is constructively involved in operations,
marketing, and the company’s overall strategy. Once, the financial manager was entrusted with the tasks, such as keeping records, preparing financial reports, managing the company’s cash position, paying bills and obtaining funds. The broad domain today includes (1) investment in assets and new products and (2) determining the best mix of financing and dividends in relation to a company’s overall valuation. The functions of the finance manager encompass most of the financial events in a firm. Thus, the functions of finance manager may be summarized to include the following:

- Overall financial planning and control.
- Raising funds from different sources.
- Selection of fixed assets.
- Management of working capital, and
- Any other individual financial event.

While performing these functions, the financial manager stands between the firm’s operations and the financial (or capital) markets, where investors hold the financial assets issued by the firm. The financial manager’s role is to trace the flow of cash from investors to the firm and back to investors again. The flow starts when the firm sells securities to raise cash. The cash is used to purchase real assets generate cash inflows which more than repay the initial investment. Finally, the cash is either reinvested or returned to the investors who bought the securities.

Investment and financing decisions are typically separated, that is, analyzed independently. When an investment opportunity or “project” is identified, the financial manager first asks whether the project is worth more than the capital required to undertake it. If the answer is yes, then considers how the project should be financed.

But the separation of investment and financing decisions does not mean that the financial manager can forget about investors and financial markets when analyzing capital investment projects. Financial managers of large corporations also
need to be deciding not only which assets their firm should invest in but also where those assets should be located.

1.6.4 Financial Management in the New Millennium

When financial management emerged as a separate field of study in the early 1900s, the emphasis was on the legal aspects of mergers, the formation of new firms, and the various types of securities firms could issue to raise capital. During the Depression of the 1930s, the emphasis shifted to bankruptcy and reorganization, corporate liquidity, and the regulation of security markets. During the 1940s and early 1950s, finance continued to be taught as a descriptive, institutional subject, viewed more from the standpoint of an outsider rather than that of a manager. However, a movement towards theoretical analysis began during the late 1950s, and the focus shifted to managerial decisions designed to maximize the value of the firm.

The focus on value maximization continues as we begin the 21st century. However, two other trends are becoming increasingly important: (1) the globalization of business and (2) the increased use of information technology. Both these trends provide companies with exciting new opportunities to increase profitability and reduce risks.

1.7 Need for the Study and Statement of the Problem

India being a labour-intensive country faces the problems of poverty, unemployment, inter-regional and inter-personal inequalities. In order to overcome these problems small scale enterprises (SSEs) has been chosen as an opportunity to ensure rapid economic development as it enables the utilization of local resources meaningfully and enhances the income and living standards of the people besides reducing imbalance among various regions and providing employment opportunities.

The Government of India is giving much importance to the small scale enterprises (SSEs) in the successive five-year plans. The small scale enterprise sector is playing a key role in the Indian economy. In spite of its prominent place in the country’s economy, sickness in the small scale enterprise sector is growing. The main reasons for growing sickness in small scale enterprises may be traced to the problems confronted in finance (34.7 per cent), raw material supply (5.6 per cent), marketing
(14.4 per cent), entrepreneurial and technological areas (19.4 per cent)\textsuperscript{33}. Finance, being the major problem, there is a need to study financial management in small scale enterprises.

1.8 Review of Literature

There are many studies on small scale enterprises (Small Scale Industrial Units). Some of the studies have been reviewed here under

The Karve committee (1956)\textsuperscript{34} stressed on the need for setting up of small scale industries to provide employment to the people in rural areas.

Reddy and Chakravarthy (1973)\textsuperscript{35} made an inter-firm comparison of financial performance during the period 1967-1971. Ratio analysis was the main tool used to examine the performance of various firms on comparative basis. They have used 22 ratios pertaining to profitability, proprietary, liquidity and turnover groups.

Kaura and Subramanyam (1979)\textsuperscript{36} took into account, only 10 cement industries (4 large units and 6 medium size units) during the period 1972-77 for studying overall performance of the units. They have focused mainly on four points' viz., liquidity, profitability, financial structure and overall performance. Besides using the conventional ratio analysis, they have adopted merit rating approach. The study found that, their liquidity, profitability, and financial structure can assess the financial strength of units in the cement industry. The ratios have declined over the years. The inadequate availability of funds not only affected technological up gradation in plants but also periodic rehabilitation of the kilns. The problems in the supply of raw materials, power and unremunerative prices might have reduced capacity utilization, profits, and cash flows. The profitability and liquidity of many units have been constrained due to non-availability of raw materials, transport facility (wagers) and power. They gave valuable suggestions for a multi pronged effort to overcome the finance and other infrastructural problems.

Kaveri (1980)\textsuperscript{37} took a sample of 40 sick, 80 irregular and 80 good units of small scale industries for the period of six years. She adopted Altman’s Z score model of multiple discriminate analysis for predicting borrower’s health. She tested 22
financial ratios of which, 5 ratios were found significant. They were current ratio, stock to total capital employed and net worth to fixed assets.

Sundarraj in his study on “financing small scale industries-a profile” (1980) stated that the proportion of institutional credit to total borrowings was 63% as against 72% for medium and large public limited companies. With in the small scale sector, the proportion stood at 63% for smaller units.

Sarma (1982) made a study on growth and problems of small scale sector in Andhra Pradesh. He has observed that the backward districts of the state improved their relative positions in terms of units, employment and capital during 1966-1975. He further concluded that, a majority of the small units were confronted with the problems of raw materials and finance.

Sitharamayya (1984) conducted an important study on accounting practices in small scale enterprises. According to him, accounting system in an enterprise acts as a measure of communication between the entrepreneur and his business. The author finally says that irrespective of the size of the business, it is necessary to keep a close contact between sound accounting practices and long-range profitability, not only from the point of view of the entrepreneur, but also from the point of view of those who have an interest or have a stake in his business.

Ramaiah and Sudharshan (1984) studied the average investment on land and buildings, machinery capital invested, generation of employment and annual production value of industries in Warangal District.

Nadar (1985) studied the relationship between small scale industries and large scale industry. He covered 45 small scale engineering units in Coimbatore region. The main objectives of the study were to measure the extent of inter relationship of small scale units with large ones and identifying the factors influencing such inter relationships. Demotivating factors to start small scale units were shortage of skilled workers, financial problems, power cuts, shortage of raw materials, lack of marketing facilities and frequent repairs.
Natarajan and Krishnamurthy (1987) have attempted to analyze the role of commercial banks in financing the small scale units, particularly to second-generation entrepreneurs. For the purpose of this study 228 entrepreneurs, who obtained working capital finances from commercial banks were chosen at random, all over the state. The authors finally concluded that, most of the second generation entrepreneurs were coming from the business families, and the financial institutions particularly commercial banks were readily coming forward to finance the entrepreneurs with business background. In this study Chi-square test has been used for analyzing the data.

Vastava (1987) made an attempt to study the financial assistance to small scale industries. He found that the agencies, which are mostly provided finance to SMEs, are IDBI, IRBI, (Industrial Reconstruction Board of India) SFCs and SIDCs. He collected data from four agencies relating to sanctioned and disbursed funds to various SMEs during 1981 to 1986. He finally concluded that, the IDBI is playing a significant role in providing financial assistance to SMEs.

Bardia (1988) conducted a study on “Working Capital Management of Iron and Steel Industry in India”. He observed that inventory occupied a major share in the current assets of the iron and steel industry. The study of debtors shows that its absolute figure continuously moved to rise. Besides this, he pointed out that the proportion of debtors considered doubtful was much higher in the iron and steel industry and he commented that this is due to inefficient management of receivables and slackness in collection efforts. He also observed that the liquidity position of the industry is poor. Finally, he concluded that the levels of inventories must be reduced to a reasonable extent and also a strict control over inventories has to be introduced so as to improve liquidity and profitability. He also suggested that industry should centralize the administration of cash funds and establish a standard optimum cash balance.

Kalchetty Eresi (1989) in his study observed that lack of self-finance for additional capital requirements was more common among smaller units. The reason was that they lacked the capacity to produce security for loans and their external references were suspected, when they went for borrowing from sources outside.
An ILO report (1989) has significantly summed up the characteristics of small scale enterprises that justify promoting them in a development strategy. “They create employment at low levels investment per job, lead to increased participation of indigenous people in the economy, use mainly local resources, promote the creation and use of local technologies, and provide skill training at a low cost of society”.

Thakur (1990) examined the financial management policies and practices in Madhya Pradesh State Agro-Industries Development Corporation. An effort has been made to evaluate the funds in day-to-day business operations of this corporation. For this purpose, he studied the objectives of financial management i.e. (a) wealth maximization of investors. (b) Flexibility in the proposed capital structure. (c) Non-interference by the suppliers of funds. (d) Survival and growth of the business. He finally concluded that in public sector organizations profit maximization and wealth maximization were not the main objectives but its objective may be productivity maximization, and provision of certain services at reasonable price to the society.

Ramesh (1991) in his study focused on the problems in augmenting financial resources, limited capacity to raise equity, raising institutional funds, working capital augmentation, private borrowing and exorbitant interest rates, inadequate security base and market pressures etc. He has concluded that the government should motivate not only new industries but also create mechanism for protecting the existing units. More liberal working capital funds should be made available to small units.

Mallikarjunappa (1991) conducted a case study on inventory and receivables position of small scale units in Mangalore taluk. This study was to compare the norms prescribed by the RBI for working capital finance with the actual inventory and receivable position of 10 selected small scale units. For this study comparative analysis statements were used for analyzing the data. The author finally concluded that all the selected small scale units had much lower inventory and receivables level than the prescribed norms. The study revealed that commercial banks have not followed Tan don committee recommendations in extending working capital loans.

Sarma and Rajalingam (1991) made an attempt to focus on the effectiveness of bank financing to SMEs, with a view to evaluate the capacity utilization of
industries to generate funds needed for repayment of loans taken from the banks. The purpose of the study was to examine the extent of bank financing to small scale units in Warangal district. The authors concluded that assistance from different financial institutions and commercial banks for working capital is inadequate. The paucity of short-term funds is a major hurdle for increasing the capacity utilization. For the study the authors have used 't' test for measuring effectiveness and chi-square test for efficiency.

Sitharamayya (1993) conducted an extensive study to highlight some of the inadequacies in financial management function in small industries. The study covered a few locations in the country and mainly concentrated on capital requirements of small enterprises. The author says that predominant inadequacies are (1) ignorance of the incidence of cost of capital, (2) margin requirements, (3) repayment, (4) break even calculations and (5) inadequacies in accounting and financial reporting systems. According to the author financial management is undoubtedly an important functional area in the overall management of an enterprise.

Jose Sebastian (1995) made a modest attempt to guide entrepreneurial aspirants in making success with the bankers. This study was based on the author interactions with the small scale entrepreneurs and bank managers. For the study data were collected through open ended interviews. The research covered some crucial lending decision i.e. specific quantifiable information, subjective and qualitative judgments. Author summarized these two sets of information as "the five Cs of lending", namely, character, capacity, capital, collateral and conditions.

Ranjan Kumar (1996) made an attempt to study survival strategies of SMEs under economic liberalization era, i.e. (a) technology, (b) labour, (c) finance and (d) management. He said, regarding the problems of finance, lack of adequate and timely finance has been rated as the foremost problem of the SMEs. He concluded that, inadequate working capital has been an important reason for low capacity utilization.

The National Council of Applied Economic Research (NCAER) in 1996 made an important effort to study the working capital management relating to Indian industry. It was compiled and published in the year 1996 as "Structure of Working
In the study an attempt was made to analyze the composition of working capital with special reference to three types of industries viz., cement, fertilizer and sugar. The primary objective of the attempt was to examine as to what extent these three industries had utilized working capital components. The study revealed that there had been excessive working capital funds locked up in most of these three industries. Finally, the study concluded that the need of the hour was to establish good accounting and costing systems, including new techniques of inventory management in each company of the above industries.

Sewakindar S. Grewal (1997)\textsuperscript{56} presents an integrated financial management model to explain the process involved in profit planning. He considered profit maximization and sustainable long-term performance are desired strategic objectives of any well-run corporate enterprise. The author says that an analytical financial management framework can be established for achieving the twin objectives of control and profit planning in a corporate environment. He finally concluded that interest coverage ratio is also an important parameter for measuring the profitability and health of the enterprise.

Kaveri (1998)\textsuperscript{57} made an attempt to analyze the issues relating to bank finance to small scale industries. The issues covered in the study were (a) quantum of bank credit, (b) time element in sanctioning the credit, (c) promoters' contribution, (d) supply of information required for sanctioning the credit, (e) compliance with post-sanction formalities, (f) recovery from NPAs, (g) working of SSI branches and (h) involvement of government. The author finally found that, future credit requirements of SMEs would be high and increasing. To meet such requirements, both banks and borrowers have to sit together to work out appropriate strategies.

Ramakrishnaiah and et al (1998)\textsuperscript{58} have attempted to evaluate the role of APSFC in financing the SSI sector in Andhra Pradesh since its inception to 1995-1996. The study was analytical in nature, concentrating on the financing pattern of SSI sector by APSFC covering year-wise, type-wise, constitution-wise, and purpose-wise and region-wise credit sanctions and disbursement in Andhra Pradesh. The data for this study have been exclusively drawn from the annual reports of APSFC. The authors finally concluded that, major form of loans extended to SSI sector were term
loans only. Other forms of loans, such as working capital, soft loans and bridge loans have not only been marginal, but also their share declined gradually over the years.

Saini and Chhabra (1998)\textsuperscript{59} have outlined the need for finance for the running of any business and the need of timely available finance for the problem free business functioning of the small scale industries. On the basis of a study conducted in 20 small enterprises in Chandigarh, they concluded “if term loan and working capital loan are given to the entrepreneurs in time with less cumbersome documentation and procedural formalities, financial problems of SMEs can be solved to a larger extent. It is therefore recommended those policy formulators, financial institutions and banks should evolve innovative financial schemes so as to reduced dependence of entrepreneurs on non-institutional finance. Adequate and timely availability of finance from banks and financial institutions would go a long way in indirectly improving profitability and increasing competitiveness of small enterprises. It will provide increased volume of business to banks and financial institutions thereby resulting in improvement in their profitability. Reduction in non-institutional finance could also act as an effective instrument to reduce deployment of undesirable funds / block money in small enterprises. Entrepreneurs should also secure faith of public, financial institutions and banks on them through timely repayments, clean and correct preparation and presentation of accounts and having a mutually rewarding relationship”.

Sanjib Roy (1998)\textsuperscript{60} has undertaken to analyze the financial performance of Indian Tea Industry. This study mainly focused on the performance scenario of tea industry. He mainly focused on three areas. They are (1) the cost of production (2) price realization and the (3) burden of taxation. Cost reduction is a planned and positive approach to reduce expenditure and the unit cost of tea. He suggested that, to reduce cost the company should improve the use of present finances, as they are outdated. This study revealed that price realization per kg depends upon market forces of demand and supply. He made an attempt to study the financial statement analysis, which represents the earning power of an entrepreneur and ratio analysis, which can measure managerial efficiencies. He concluded that there is no doubt that the ratio analysis forms an invaluable aid to the users of financial statements. He explained that
a high current ratio may indicate a strong liquidity position but excess inventory may mean efficient utilization of plant and machinery etc.

Hallberg (1999)\textsuperscript{61} presents an interesting comparison between the size of the economy and size of its major industries and enterprises. “In low income countries, micro-enterprises and small scale enterprises typically comprise the vast majority of firms and account for large share of employment and exit a few large enterprises. In middle-income countries, medium scale enterprises begin to account for a relatively larger share of production and employment. The trend towards larger firm size seems to continue as per-capita income increases, although SMEs (small and medium enterprises) are relatively more important in some industrialized Asian countries than in the US and the UK”

Mohan Reddy and others (1999)\textsuperscript{62} have made an attempt to ascertain working capital management practices in small scale industry groups. For this study data have been collected through personal interview method. The universe for this study consists of 148 SSI units, out of which 30 SSI units constituted the sample of the study. The authors finally suggested that, partners/owners have no knowledge about working capital management techniques; they may hire the services of a trained person to look after the unit’s financial aspects, more specifically management of working capital. The control over working capital can be exercised through the preparation of periodical working capital reports at least once in a month.

Vasudev Rao (1999)\textsuperscript{63} made a crucial attempt to present some of the issues related to working capital management and operating cash cycle of small enterprises. Liquidity ratios were used for analyzing data. Researcher found one new ratio i.e. maximum internally financeable rate of growth (MIFROG). This has been very useful tool to assess sales growth possibilities without looking for outside finance. MIFROG analysis is used by owners or managers for closely monitoring of operating cash cycle (OCC) and for managing their assets effectively. After comparing the final results with the Nayak Committee Report, author concluded that, the Nayak committee recommendations regarding working capital management were not fully implemented.
Vikram Chada studied “Financing the Modernization of Small Scale Industries in India” (1999) and found that the small industries predominated the Indian industrial scene urgently needed the upgradation of its production technologies and methods in order to survive the emerging competitive pressure. The problems encountered by the small scale industries ranged from the shortage of credit and finances, underutilization of capacities, low competitiveness in the input and product markets, to the inadequacy of infrastructure facilities like power and transport.

Bishnupriya Mishra and Kor N.C., (1999) concluded that there is a significant correlation among different financial ratios which measure profitability, liquidity and cash flows of a company. The ratios can be clubbed into different categories. The discriminate analysis with these ratios infers that cash-flow measures are better indicators than the profitability and liquidity ratios for indicating the financial health of a company. Hence, the cash flow based ratios taken together have a better predictive power than the other traditional financial ratios.

Jay S.Matadeem (1999) studied the growth of Mauritius economy from monocrop economy to industrialized one. Unlike the first stage of its economic development, which has been very successful, the take off for the second phase of its industrialization appears to be more difficult because of both domestic and international factors. In order to sustain the economic growth, both the large and small scale manufacturing sectors require to be developed. In this study he took investment practices in the specific SMEs. These are food, beverages and tobacco; metal products and workshops; corporate SMEs; high sales turnover SMEs; SMEs having significant investment in plant and machinery.

Chandrasekharan (1999) undertook a study and analyzed the financial performance of Indian sugar industry. Financial ratios are used to analyze the financial performance of this industry. They are liquidity ratios, turnover ratios, leverage ratios and profitability ratios. Finally, he concluded that high stocks of finished goods affect the sugar industry’s financial structure.

Hyderabad (1999) has undertaken a noteworthy study on working capital leverage management. His paper aims at throwing light on the concept of working
capital leverage and its significance, measurement and conditions in an enterprise. Working capital leverage indicates a firm’s responsiveness to its working capital investment policies. He expressed the belief that inadequate and excessive investment in working capital leads to dangers and that optimum investment are always desirable. This study covers three Indian private sector firms, Essar Steel Limited, Raymond Limited and BPL Limited. The impact of working capital leverage on the ROCE can be analyzed by assuming that the need for working capital increases. He concluded that the objective of the working capital management of any enterprise would be to minimize working capital requirements. The working capital leverage calculated for the decrease in working capital for all the three companies exceeds the degree of working capital leverage calculated for the increase in working capital.

Kowjalgi (2000)\textsuperscript{69} has gone through the topic, ‘Small Scale Industries in India’. India is a vast country. Ever since independence, affords have been made by successive governments to create more job opportunities to the youth which resulted setting up of SSI units all over the country. One of the suggestions for SSI management is to reduce anomalies with reference to SSI units.

Bala Subrahamanya (2000)\textsuperscript{70} has made an attempt to analyze the small industry demand for finance will be different in the twenty first century as compared to the twentieth century, and what are the different dimensions of small industry demand for finance. The author said that, credit demand of small industry can be divided in to two types. (1) Working capital demand and (2) investment demand. He finally concluded that, technology up gradation and modernization will be the most significant factors contributing to the increase in investment demand from small industry in the twenty-first century.

Sivarami reddy and et al (2000) had undertaken another important study\textsuperscript{71}. This study attempts to examine credit management practices in small scale industries. The universe of the study consists of 148 SSI units out of which 30 units were selected as sample units. The sample units represent diverse industrial groups such as plastic, mineral, engineering, aluminum, and chemical industries. Data for this study was collected through personal interview. Finally they suggest that, to opt for open account method of credit sales as it reduce the pressure on working capital.
Anita (2000) has made a study on banks; only hope for SSI s. The main object of this paper is to assess the banks assistance to small scale industries. She found that, in the post-nationalization period all small scale industries were depending heavily on the money lenders and indigenous bankers for finance, where as commercial banks have now evolved new schemes to meet the credit needs of the small scale sector. Many of the commercial banks are providing consultancy services and counseling to SMEs. The author finally concluded that total credit provided by the public sector banks to SMEs as end of March 2000, stood at 15.6 per cent of net bank credit and 35.8 per cent of total priority sector advances of these banks.

Anitha and Laxmisha (2001) have conducted a survey on financing the entrepreneurs-an evaluation of KSFC. This study was an attempt to evaluate the performance of KSFC. The study covers a period of six years i.e. from 1991-92 to 1996-97. To evaluate the performance of KSFC, secondary data were used and collected from annual reports and operational statistics of KSFC. The authors finally found that, SMEs were the leading borrowers from KSFC where as corporation mainly provided term loan facilities, but failed to meet the working capital requirements of the enterprises.

Ravethy and Rao (2001) conducted a study to analyze the financing pattern of small business units. This study focuses on the problems of shortage of power and raw materials, low demand for products, poor quality, unintelligent marketing plan and imprudent financing pattern. For the purpose of this study, data collected from 100 registered units of the District Industries Centre, Ongole. Finally the authors found that, the borrowed funds occupied a dominant position in all the units. The researchers measured the impact of debt on profitability with the help of three ratios. i.e. (a) Interest as percentage of income, (b) Interest as percentage of gross profit and (c) Cash flow coverage ratio. In this study “Ratio analysis” technique was used for analyzing the data.

Surrender S, Yadav, Jain and Rastogi (2001) had undertaken a study to analyze the working capital management in oil industry in India. Their study covers working capital management of three major oil sector companies, namely, IOCL, HPCL, and BPCL. They assumed that working capital management is the most
important aspect of financial management. The objectives of the present study are to examine and compare the effectiveness of working capital management of oil sector companies and to study the liquidity and management of short-term finances of oil sector companies. For the present study a time span of ten years period i.e. from 1987-1988 to 1996-1997 is chosen. The ten years period was divided into two distinct phases. To analyze the liquidity position two liquid ratios were used viz., (1) Current ratio and (2) Quick ratio. Working capital ratios, current asset turnover ratios, and inventory turnover ratios etc., were used to test the efficiency. The study reveals that these companies have, by and large, managed their working capital well. They have to continue doing well and improve upon the present so as to face the ensuing competition from other players including multinationals.

Siva Ramaprasad (2001) worked on working capital management in paper industry. This study had been carried out in 21 selected paper mills. The sample includes nine large, five medium and seven small scale paper mills. He stated that working capital forms a major chunk of total capital. Many, a business enterprise have not paid adequate attention to this. The present study on the efficiency of working capital reveals a sub-optimum utilization of working capital, the rate of return on current assets was negative, and the present study observed a poor planning of cash balances. Finally, the author stated that financing is another important issue in the management of working capital of a paper mill. Mostly financing of working capital is met from internal sources. Diversion of working funds for meeting long term requirements results in negative net working capital. He concluded that there was an urgent necessity for changing the structure of finance of industry.

Muhammad Refiqual (2002) made an attempt to study cash management in public sector paper mills of Bangladesh. The main objective of the study is to minimize unproductive cash balances, investing temporarily cash advantageously. This study covered four large public sector pulp and paper mills. He expressed the view that no firm should maintain an optimal cash balance, which is neither more nor less. The scope and objectives of the study are: (1) to study the adequacy and control of cash and (2) to identify the possible factors affecting them. The present study is based on the secondary data and it has been conducted in spite of all those limitations. In the present study an attempt has been made to study the cash management practices.
in the public sector paper mills of Bangladesh. To ascertain the liquidity and solvency position of a concern, current ratio and quick ratio have been used. He stated that cash control is necessary for liquidity management of a firm. He concluded that the size of cash balance in all the units has been very small and that fluctuations are very high. He pointed out these firms are unable to have effective control over cash flows. Finally he suggested that to overcome the above problem, there should be greater emphasis on collection from debtors, excess stores and spares have to be reduced to release the cash.

Kanchan Kumar Purohit (2002) undertook a study of “Financial Management of Urban Local Governments of Bangladesh with Special Reference to Dhaka City Corporation (DCC)”. An attempt has made to highlight the financial management system of the upper level urban local government of Bangladesh. A sound financial management system involves anticipatory, acquiring and allocating the financial resources to achieve the objectives. He explained the financial performance of local bodies in discharging various functions of mobilization of revenues and expenditures and clearly stated those main elements of urban local government finance are budgeting, accounting, financing, auditing and other controlling measures. He expressed the view that accounting system of DCC is very much outdated and suggested to use the modified accrual basis of accounting system instead of cash basis method. He also pointed out that analysis of financial pattern of DCC reveals that it is suffering from chronic financial shortage. Finally, he suggested that, to save the DCC from financial crisis urgent measures for the improvement of the budgeting, accounting and control systems are required; otherwise DCC will fail to play its role properly.

Amita S.Kantawala (2002) significant study has been undertaken to analyze the financial performance of selected industries through market value added approach. This attempt has been based on six variables (a) return on total assets, (b) capital productivity, (c) cash profits, and (f) stocks return. In this article he stated that MVA is the best external performance measure and it is taken as a dependent variable. This study was undertaken to examine the effect of selected variable on MVA. The primary objective of the study was to know one of the internal measures, which can influence the MVA to the maximum possible extent. The study covers 13 companies
from the field of textiles, 11 companies from pharmaceuticals and 12 companies from electronics. He finds EVA does not significantly affect textile companies and pharmaceutical companies but it is clear that EVA significantly affects MVA for textile companies.

Sujatha Das (2002)\textsuperscript{80} attempted to analyze the financial problems of small scale industries in Assam. This study was conducted by eliciting information from a sample group of entrepreneurs and a section of bankers operating within Kamrup district of Assam. The author discussed with entrepreneurs and bankers finally expressed that, both the groups had problems.

(1) Problems from the point of view of the entrepreneurs:
   a) Paucity of working capital funds
   b) Increasing interest rates
   c) Applying for bank finance requires a number of formalities, documents and data submissions.
   d) The procedure for sanctioning loans by the SFC.
   e) There is a considerable time lag between sanctioning of loans and its actual disbursement
   f) The furnishing of security and guarantee is a big problem for small entrepreneurs.

(2) Problems from the point of view of the Banker:
   a) Lack of proper maintenance of audited accounts
   b) Lack of proper project planning
   c) Sanctioned loans are not properly utilized.

Kaveri (2002)\textsuperscript{81} took in to account, more than 100 sugar industries during the period of 1981-2001. She focused mainly on four points viz, liquidity, inventory management, financial structure and bankers concerns. She found that sugar industry is highly debt-burdened which is evident from the total debt-equity ratio, which went up to 2.9:1.0 in 2000-2001 as against 1.89:1.0 in 1994-1995. The author finally says that recognizing the important role played by sugar industry in Indian economy; banks are also keen to support it in all possible ways. Bank credit is provided to for both
acquiring fixed assets and working capital. She concluded that, the sugar industry requires bank credit before beginning of season and bank funds will be expected to be returned with interest by the end of the season, but it is unfortunate to state that this expectation is not fulfilled. In other words bank experience high NPAs in this industry. Above all, the sugar units should consider banks as financial partners and seek their financial advice from time to time.

Anilkumar and Garg (2002)\textsuperscript{82} made an attempt to analyze the financing of small scale industries in Haryana by Haryana financial corporation. The objective of this study, to analyze the trends in loans sanctioned and disbursed by HFC to small scale units in Haryana during the post-reform period. Secondary data were used for this study. The data have been analyzed with the help of simple and trend growth rates. The researchers finally concluded that, most of the small scale units did not maintain an accounting system as desired by the corporation.

Noman Ahmad and Ashrafuzzaman Chowdury (2003)\textsuperscript{83} had studied about SIDBI's role in financing the SMEs despite its crucial importance in the Indian economy. The small scale sector faces numerous problems such as finance, marketing etc.; in respect of reason wise analysis we have found that SIDBI has totally neglected the northeastern region of the country.

Ashita Raveendran (2003)\textsuperscript{84} presented a survey on the financial structure and performance of the engineering industry in Kerala. He conducted a study on sources and uses of funds, liquidity, inventory, and cash management. For analyzing the financial data, he used tools such as comparative financial and operating statements, common size statements, trend analysis, averages, ratio analysis, and funds flow statements, and also made use of Altman's model for testing its consistency. He finally considered that, there is a shortage of working capital, which has resulted in low capacity utilization of engineering industries in Kerala.

Ramachandran (2003)\textsuperscript{85} made an important attempt to study the nature and dimensions of problems of small scale industries. He classified SMEs problems into four types, viz (a) problems of finance, (b) problems of raw materials, (c) irregular power supply and (d) problems of marketing. The author considered small scale units
suffer from scarcity of finance and credit available to them was less. Small scale industries do not have sufficient funds of their own and they find it difficult to have necessary resources from industrial agencies. Finally he concluded that another problem relating to finance in SMEs have to buy raw materials on cash basis and supply of finished goods on credit often extending from 90 to 120 days. This cause sizable outflows of cash resources and further forced to industrial sickness.

A survey conducted by the FICCI (2004)\textsuperscript{86} on banking financing for the SSI sector has reported the status vis-à-vis working capital financing, interest rate of working capital loans and the problems faced by the SMEs in regard to bank financing and remedial measures thereof. The survey attracted responses from 229 individual SSI units as well as associations and federations of small scale enterprises like Laghu udyog Bharathi, Belgaum Small scale Industries association etc. According to the survey, “there has some improvement over time in the availability of working capital finance from banks to the SSI units”. 42 per cent of the respondents are getting between ‘10 per cent to 20 per cent’ of their projected annual turnover as working capital loans as compare 35 per cent five years ago. “The rate of interest charged by banks to the SSI units for advancing working capital loans has come down over the last five years. A larger number of SSI units are now paying interest in the 12 per cent to 14 per cent”. The survey however notes that “while the rate of interest charged to the SSI units have gone down, some of the banks have increased the frequency of compounding from quarterly compounding to monthly compounding. This increases the financial burden and also negates the benefits of reduced interest rates”.

Mahalakshmi (2004)\textsuperscript{87} analyzed the importance of “accounting ratios as a tool of financial analysis”. She mainly concentrated on activity ratios. These ratios help in finding out the operating cycle period. Activity ratios are concerned with measuring the efficiency in asset management. She found one new ratio that is advanced turnover ratio. Advanced turnover ratio measures the quality of performance of purchase, stores, and production and sales departments. This ratio helps in (a) studying the time taken by supplier to deliver the goods against advance given and (b) the time taken by the firm to clear an order against which advance has been received from customers.
Anbumani and Pradeep (2004) have undertaken a study and analyzed financial structure in small scale industries. This study attempts to analyze the financial structure and sources of finance for these small scale industries of Coimbatore, an industrially advanced district in Tamilnadu. This study covers the period 1993-2003 and includes all small scale units registered with district industry centers. They choose for this study, 17 industry groups as per 2-digit classification of the NIC code of 1987. As per this study main sources of finance are creditors, equity capital, reserves, surplus and borrowings from institutional as well as non-institutional agencies for the Coimbatore small scale sector. This study depends on solvency ratios. They found that proportion of owner’s capital in the total capital of the selected companies increased from 1993-2003.

Chawla and Batra (2004) attempted to analyze the financing practices and problems of small and medium enterprises. This study mainly focuses on examining the pattern of finance and its utilization by the SMEs in Rwanda. The sample for this research was comprised of 50 SMEs operating in Rwanda. Both primary and secondary sources of data were used in this research. For collection of data structured interview, unstructured interviews and documentation reviews were used. The objectives of this study are:

- To examine the pattern of finance and investment in small and medium enterprises.
- To identify the financial problems faced by the small and medium enterprises.
- To suggest suitable measures and appropriate recommendations for such eventual problems.

For analyzing the data tables, charts, rates, percentages and other statistical tools were used. Finally researchers suggest that, the financial institutions apart from giving loans and offering credit services, introduce various financial services such as leasing and hire purchasing, factoring and venture capital so that the SMEs can have access to more sources of finance.
Ashim Kumar Das and Nikhil Bhusan Dey (2004) have conducted a study to analyze practical methods for improving receivable management in small business. For this study, quantitative information obtained from a survey conducted on small business in and around Silchar town of Cachar District of Assam in the year 2002-2003. This study reveals that (a) SMEs followed a liberal credit policy. It leads to an increase in sales and also leads to an increase in account receivables. (b) The wide gap between the theory and practice of book-keeping and financial management is probably more in small businesses.

Renu Luthra and et al (2005) assess the importance of certain structural variables for determining the profitability of firms in small scale businesses in India. A single equation regression framework was chosen as the method of analysis. The relationship between profitability and different determinants of size such as total assets, sales, operating cost etc. is planned to be studied by regressing profitability and each of these variables.

Darling Selvi (2005) conducted a study on the “Financial Performance analysis of TTK Pharma Company”. It is an analytical study. Through ratio analysis, trend analysis, and leverages, comparative and common size statements, he analyzed the financial statements. The author found that, the income generating capacity of TTK Pharma Ltd. is good. As far as investment pattern is concerned, heavy amount is invested in fixed assets and so it is the hindrance for the running of working capital. Inventory turnover ratio reveals heavy blocking of inventory due to lower sales than production. Leverages revealed the fact that the company is facing a high risk.

Rashid R.Pansare (2005) has undertaken a study on trends in financing SSI sector in India. He found 31 lakh SSI units existed throughout the country. A majority of them are proprietary concerns (80.5 per cent) where as (16.8 per cent) functioning as partnership and private limited companies. He finally concluded that, the finance provided to the SMEs is majority of the commercial banks.

Mishra, P (2006) made an attempt to highlight the working of the small scale industries (SSIs) in Orissa during the years 1996-1997 to 1998-1999 and 2003-2004. The period witnesses policy changes at different levels which might have affected the
working of the manufacturing sector in general and the manufacturing SSI units in particular. It is based on two sample studies of SSI manufacturing units in five industrial clusters in Orissa. He suggests that the units are operating in the constant return to scale. Most of the units are raw materials intensive and few are labour intensive depending upon the type of product categories. It is observed that lack of demand, tax problem, competition in the local markets, financial problems and attitude of the entrepreneurs are the important reasons for the high incidence of closure of the SSI units in Orissa.

Sulaiman and Ahamed (2006)\textsuperscript{95} conducted an important study on working capital management in Kerala Agro Industries Corporation Ltd. The main objectives of this study i.e. (a) overall working capital analysis in the KAIC Ltd. (b) to measure efficiency in the management of working capital. For this study, the data collected from secondary sources i.e., published annual reports of the KAIC Ltd., for the year 1996-1997 to 2000-2001. In this study for measuring the performance of working capital management, technique of ratio analysis has been used. Finally they suggested that: (a) Steps are to be taken to the speedy collection of debtors. (b) The amount of cash and bank balance employed in the business should minimize as per the requirements of the organization. (c) The firm must employ long-term funds for financing fixed assets.

Prasain and et al (2006)\textsuperscript{96} attempted to analyze the financing pattern of small scale industries in Imphal East and West districts of Manipur State. For this study, the sample consists of randomly selected 101 SSI units. The method of sampling adopted is stratified random sampling with proportional allocation of both districts. The sample size is determined on the basis of a pilot survey. Authors were collected data, pertaining to the amount of capital, borrowings and repayment of borrowings during June-September 2005. Finally they suggested, taking in to the view of the importance of financial management of an industry i.e., (a) severe penalties may be levied on entrepreneurs found misusing the funds. (b) Timely and adequate finance, depending on the operational cycle of the activity, must be available to the entrepreneurs. (c) Shortage of working capital is the main factor responsible for slow commencement of an industrial unit, so proper handling of this problem is very important.
Ramachandra Rao and et al (2006) studied the role of commercial banks lending to small scale industries. This study covers 97 scheduled commercial banks, excluding regional rural banks (RRBs). In their study examines the trends in sectoral allocation of bank credit to the SSI sector vis-à-vis the non-SSI sector in the post reform period. The results indicate that scheduled commercial bank loans to SSI have been falling consistently from around 39 per cent in 1992 to around 24 per cent in 2004. They said that, the chief reason for falling of percentage of loans to SSI is high incidence of bad loans arising out of SSI advances.

Namasivayam and Ganesan (2008) made an attempt to analyze the financing of the SSIs by the commercial banks, operating in Madurai District under the lead bank scheme. The study analyzes the performance of financing SSIs by commercial banks in Madurai District and the performance scores of loans grants of SSIs by commercial banks using Friedman’s test. The results of Friedman’s test indicate that there is no significant difference in the performance of commercial banks of different classifications operating in Madurai District in leading to SSIs during the 1998-99 to 2004-05. The performance scores reveal that state bank groups have exhibited a high range of performance score (50 per cent), results a high record of achievement in finance when compared its target, followed by national commercial banks (49 per cent), and private sector banks (33 per cent).

Review of literature, given above, shows that though there are a few studies on financial management in small industry there are no comprehensive studies on financial management in small scale enterprises in Anantapur district. This has prompted the researcher to do research on financial management in small scale enterprises in Anantapur district.

1.9 Objectives of the Study

Objective of the study are to study/examine/evaluate:

(i) the general finance management related aspects including sources of capital and capital structure in the selected small scale enterprises;

(ii) the working capital management practices in the selected small scale enterprises;
(iii) the cash management related aspects in the selected small scale enterprises;
(iv) the aspects relating to receivables management in the selected small scale enterprises;
(v) the inventory management practices in the selected small scale enterprises; and
(vi) To offer suggestions for improving the financial management in the selected small scale enterprises.

1.10 Hypotheses

The present study is based on the following hypotheses.

(i) In many of the small scale enterprises finance function is looked after by the owners themselves and no separate Finance Department exists.

(ii) Systematic financial management methods and techniques are not used in many of the small scale enterprises.

(iii) Small scale enterprises depend more on external sources of finance.

(iv) Small scale enterprises have been marked with relatively a higher share of investment in current assets than investment in fixed assets.

(v) Small scale enterprises are characterized by low current ratios despite large investment in current assets.

(vi) Small scale enterprises maintain large inventory holdings leading to liquidity crisis.

1.11 Area of Study/Universe and Sample Selection

As it is not possible for an individual researcher to cover a large area it has been decided to confine himself to one district. As the researcher owes his allegiance to Anantapur District due to his birth, studies and livelihood he has purposefully selected it. Moreover Anantapur is a backward district in backward Rayalaseema area in Andhra Pradesh. As it is also not possible to have a source list of the unregistered small scale enterprises, in the next stage it has been decided to choose only those small scale enterprises which are registered with the District Industries Centre and are located in the industrial estates in the District. Hence for the purpose of the study the universe means the registered small scale enterprises located in the Industrial Estates in Anantapur District. As per the information obtained from the District Industries
Centre, Anantapur, there are 290 small scale enterprises registered in the six industrial estates in Anantapur district as at the end of March, 2007. Out of the 290 small scale enterprises, 107 units have been identified as sick units by the District Industries Centre. As it is beyond the capacity of the individual researcher to survey all the units it was decided to select approximately 50 per cent of the units from each industrial category on random basis. Sick units were not considered for the purpose of the study, because the data collection from such units was found neither possible nor useful for the purpose. The number of units selected industry-wise is shown in table 1.6.

Table 1.6

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Industry Type</th>
<th>No. of Working Units in Universe</th>
<th>Sample (No. of Units)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Engineering</td>
<td>64</td>
<td>32</td>
<td>50.00</td>
</tr>
<tr>
<td>2</td>
<td>Mineral</td>
<td>50</td>
<td>25</td>
<td>50.00</td>
</tr>
<tr>
<td>3</td>
<td>Agro-Based</td>
<td>18</td>
<td>10</td>
<td>55.55</td>
</tr>
<tr>
<td>4</td>
<td>Plastic</td>
<td>16</td>
<td>09</td>
<td>56.25</td>
</tr>
<tr>
<td>5</td>
<td>Chemical</td>
<td>07</td>
<td>04</td>
<td>57.14</td>
</tr>
<tr>
<td>6</td>
<td>Miscellaneous</td>
<td>28</td>
<td>15</td>
<td>53.57</td>
</tr>
<tr>
<td>---</td>
<td>Total</td>
<td>183</td>
<td>95</td>
<td>51.91</td>
</tr>
</tbody>
</table>

Source: Records of Andhra Pradesh Industrial Infrastructure Corporation Limited, Industrial Estates of Anantapur and Hindupur.

1.12 Period of the study

The period of the study refers to six years commencing from 2000-2001 to 2005-2006. Economic liberalization, privatization and industrial delicensing formed the core components of the economic reforms. There has been perceptible change in the government policy towards small scale sector since 1991. The small scale enterprise sector as per the new industrial policy has been exposed to market forces. Further, the flow of credit to small scale enterprise sector is no more allowed at low interest rates. The economic reforms adopted in the country in early 1990s had a critical impact on the financial management of small scale enterprise sector.
1.13 Collection and Analysis of Data

Primary data have been collected with the help of a pre-tested schedule from the selected small scale enterprises. Secondary data were collected from different published and unpublished sources.

The data collected have been analyzed by using averages, percentages, ratios, trend values, and coefficients of correlation. The data so analyzed have been presented in the form of tables and diagrams.

1.14 Limitations of the Study

The study is not limitation free. The limitations of the study can be stated as follows:

- The study is confined to small scale enterprises located in one district.
- It is a sample study but not a census study.
- The study is based on the responses provided by the respondents to the questions and statements given in the schedule.
- The study is partly based on the financial statements prepared and provided by the respondents. Many a time the tendency of the respondents is to manipulate the accounts for the purpose of getting some tax advantage.
- Many a time the respondents were reluctant to part with the financial information of their concerns.

Any how all the care has been taken to maintain completeness and accuracy of the data collected, analyzed and presented.

1.15 Organization of the Thesis

The thesis has been divided in to eight chapters.

- The first chapter is on introduction. It introduces the subject, gives a birdseye-view of the growth of small industry in India, discusses the scope of the subject, financial management, emphasizes the need for the study,
states objectives, hypotheses and research methodology, limitations, and reviews the relevant literature.

- Profiles of the District, the sample small scale enterprises, and the respondents are provided in the second chapter.
- In chapter three analyses of the data collected relating to determinants of capital, sources of finance and financial structure of the selected small scale enterprises have been provided.
- Chapter four presents working capital management practices in the selected small scale enterprises.
- All the aspects relating to cash management by the selected small scale enterprises have been given in chapter five.
- Receivables management in the selected small scale enterprises has been discussed in chapter six.
- Seventh chapter deals with inventory management.
- Eighth chapter is on summary, conclusions and suggestions.
7. Guidelines for Industries (1979), Sec II, p. 11.
23. Ninth Five Year Plan Documents, Vol.II.
37. Kaveri, V.S., Financial Ratios as Predicators of Borrowers Health (With Reference to Small Scale Units In India), Sulthan Chand & Sons, New Delhi, 1980.


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