CHAPTER-VI

Summary and Findings
6.1. Design and Methodology of the Study

An analytical study of the Development of Small Scale Enterprises has been taken up, with a case study of Kurnool district in Andhra Pradesh, to fill the research gap in the Development of Small Enterprises in the context of liberalization. Problems of Small and Medium Enterprises change, and the intensity of impact also differs from time to time from region to region, and also from one industry group to another, though a number of problems are similar across regions and industry groups. The hypothesis set for the investigation is as follows: Small Enterprises Sector continues to suffer from a number of problems in the process of development, on several fronts, largely due to the competitive environment within the country, and in the international scenario. Working Small Enterprises in Kurnool district (Andhra Pradesh) have been selected for an intensive study. Kurnool district is referred to as a backward district in Rayalaseema of Andhra Pradesh from the angle of economic and industrial development.

The objectives and scope of the study are as follows:

1. To review the policies and performance of small scale industries sector (Small Enterprises) at the National level.
2. To critically examine the performance of small scale industries (small enterprises) at the State and District level with reference to Andhra Pradesh and Kurnool district.
3. To analyse the structure and performance of sample small scale industries (small enterprises) in Kurnool district.
4. To study the environmental aspects of sample small scale industries (small enterprises) of Kurnool district with focus on managerial problems, such as technology, production, labour marketing, transportation, and finance, and
5. Suggest strategies for accelerating the Small Scale Industries (small enterprises) development.

The period covered for the study of Small Enterprises in Kurnool district is 2000-2009 (10 years), and the primary investigation is limited to a sample of 150 enterprises in size and industry groups. There are mineral based units, agro-based units, food based units, chemical-based units, textile based units and repair and service units among the working small
enterprises in Kurnool district. These six product groups account for 66.4 per cent of the number of enterprises, 81.3 per cent of fixed investment, and 75.7 per cent of employment. Out of 4094 working enterprises of the six product groups, the sample selected constitutes 3.7 per cent of the total units. In the individual groups the percentage varies from 3.3 per cent to 8.3 percent in six product groups.

Among the 150 enterprises covered in the sample, mineral-based units account for 62 (41.3%), agro-based units-34 (22.7%), food-based units 21 (14%), chemical-based units 12 (8.0%), textile-based units 03 (2.0%) and repair and service units 18 (12.0%). Structural features of the sample enterprises reveal that most of them are (95.3%) of the Micro Enterprises category with relatively low investment in small enterprise, with investment in plant and machinery going upto Rs.25 lakh each. The food-based units, textile-based units, repair and service units have low investment in plant and machinery i.e., below Rs.8.19 lakh, in the repair and service units it is only Rs.2.76 lakh each. Chemical based units have the highest investment level of Rs.12.81 lakh each, followed by mineral-based units with Rs.12.44 each and agro-based units with Rs.11.55 lakh each. The three product groups with the lowest investment in plant and machinery per enterprise have the lowest per enterprise values of gross fixed capital, gross capital employed, and employment. In respect of enterprise employment, agro products score over others followed by mineral and chemical products. The study covers largely categories based on mineral and agro raw materials and demand in the nearby areas. Rural enterprises covered are only 44 out of 150 (29.3%) and urban enterprises are 106 (70.7%). 84 per cent of the enterprises are proprietary concerns, and the balance 16 per cent are partnership concerns. No ancillary units have been covered. Women promoted enterprises have also not been covered. Agro, mineral and chemical product units have higher investment limits per enterprise compared to the other categories. Per enterprise output and sale in agro product units are higher than mineral and chemical units. Revenue division-wise coverage reveals that Kurnool accounts for 62 (41.3%) followed by Nandyal 57 (38%) and Adoni 31 (20.07%).
Secondary data have been gathered from the District Industries Centre, other organizations banks, and industry associations at the district and mandal level. Primary data are collected from 150 sample small enterprises from the three revenue divisions of the district covering urban and rural areas, near major industrial centres in particular. The structured questionnaire amenable for computerization was administered among enterprises with focus on entrepreneurial background, progress and performance of the enterprises, problems faced by the enterprise in specific managerial areas, and future plans of the enterprise. Discussions with the entrepreneurs and their functionaries and association representatives, who are themselves small entrepreneurs, have helped in facilitating realistic responses in relation to the objectives of the study.

The responses to the questionnaire have been processed on the computer using SPSS software. Conclusions drawn from the analysis as given in Chapter IV and V are summarized in this chapter. Likert scaling technique has been used in respect of five features for analyzing the responses using weighted-score-rating method. These features are (a) ambitions while starting the enterprise, (b) factors useful for the development of the enterprise, (c) locational factors, (d) reasons for short fall in capacity utilization and (e) impact of liberalization. Frequency distribution has been adopted for all features on different aspects covered in the questionnaire. Responses of entrepreneurs on the changes taking place in the post-liberalization period on a few aspects have been analysed.

Review of literature attempted in part II of Chapter II is divided into four sections with continuing serial number for all sections, covering 90 (publications/unpublished doctoral dissertations and articles from journals) references in all.

(1) Policies and programmes and role of organizations in Small Enterprises Development (serial number of reference 1 to 25).

(2) Performance and problems of Small Enterprises (Serial number of references 26-57).

(3) Competitive environment for Small Enterprises (the serial number of references 58-74).
Entrepreneurship development (serial number of references 75-90).

The first chapter has covered 25 references. The total number of references covered in the first and second chapters are 115.

A number of programmes and thrust areas of the Small Enterprises sector have been covered to highlight the status in different regions, including problems faced and directions for the future. Apart from the different regions of India, a number of other countries have also been covered. These include developed and developing nations. In each reference, methodology adopted and salient findings are highlighted.

6.2. Small enterprise scenario at the National level

Evaluation of industrial policies with focus on Small and Medium Enterprises, particularly in the post-liberalization period from 1991 have been covered in considerable detail. In the post-liberalization era, competition has tremendously increased in the domestic and international markets, and debureaucratization, Government's role as a facilitator, and no longer as a regulator has increased. This gave impetus to the Industrial sector, Small and Medium enterprises to surge forward with greater vigour and enthusiasm. The positive results of the growth of the industrial sector and a much faster growth at an accelerated pace in the Small and Medium Enterprise sector have been encouraging.

The country is moving towards a high growth trajectory with an anticipated level of 9.0 per cent growth rate of gross domestic product (GDP) per annum in the Eleventh Five Year Plan (2007-12). During this plan period, growth rate of the industrial sector is envisaged at 10 per cent and for manufacturing at 12 per cent, and for the SME sector, a higher level. SME sector has a significant role to play in bringing about faster and more inclusive growth, with focus on balanced regional development, generation of off-farm employment opportunities in a dispersed manner, and in empowering weaker and vulnerable sections, including poor women in rural and urban areas, all over the country. At the end of 2006-07, the registered and unregistered small enterprises in the country account for 12.84 million (2.03 million registered and 10.891 million unregistered), with production at Rs.4762 during 2005-06 at 2001-02 prices, fixed investment at Rs.2073 281
billion, employment at 31.25 million and exports at current prices in 2005-06 at Rs.1502.42 billion (US$ 33.94 billion). Growth rate of production of Micro and Small enterprises at 2001-02 was 10.5 per cent in 2002-03, 14.7 per cent in 2003-04, 16.9 per cent in 2004-05, and 13.9 per cent in 2005-06. Employment growth rate was 4.2 per cent per annum during the period 1995-96 to 2005-06. The exports growth rate was 15.2 per cent (CAGR) during the period 1995-96 to 2005-06. Exports from the sector have shown consistently higher than 20 per cent growth rate per annum from 2004-05.

Among the strategies being pursued vigorously in recent years, cluster approach for technology upgradation / modernization, and export promotion is prominent. Clusters of small firms located in the adjoining areas, their use of flexible manufacturing system, inter-firm cooperation and provision of services enable the enterprises to derive the benefits of collective agglomeration and external economies. Through this effort, the enterprises, as a group are able to grow rapidly, upgrade their skills, improve their productivity and technology, develop market-niche, and gain access to bigger and distant markets. These steps result in enhancing the competitiveness of enterprises in the global scenario. Other thrust areas in the SME sector pursued at present are (a) export promotion and export competitiveness, (b) integrated resource utilization and high quality infrastructure, (c) support for technology upgradation / modernization, (d) access to modern management practices, including use of information technology tools (e) promotion of inter-firm linkages, (f) better access to export markets and more export destinations (g) public / private partnership mode, (h) improve quality consciousness, and quality certification and, (i) prepare the enterprises to meet the challenges of the emerging environment of the World Trade Organization (WTO).

6.3. Development of Small Enterprises in Andhra Pradesh and Kurnool District

Development of small enterprises in Andhra Pradesh has been analysed from 1997-2009, at the disaggregated level of sub-regions and regions, covering all the 23 districts: Telangana – 10 districts, Rayalaseema – 4 districts, and Coastal Andhra – 9 districts. The Telangana region is subdivided into Hyderabad sub region – 3 districts and rest of Telangana – 7
districts, and Coastal Andhra region is sub-divided into North Coastal Andhra sub-region of 5 districts and South Coastal Andhra sub-region of 4 districts. Rayalaseema region has been treated as one entity, in view of its small size of four districts. Small enterprises data for 1997 to 2009 have been analysed for these sub-regions and regions, and share and growth rate between specific periods have been worked out, in respect of the number of enterprises, fixed investment, and employment, based on the district-wise data gathered from the commissionerate of industries, Hyderabad. Similar data for Kurnool district have been gathered from DIC, Kurnool. In respect of fixed investment of Small Enterprises in the state, compound annual growth rate (CAGR) between 1997-2000 was 18.9 per cent between 2000-06, 6.37 percent between 2006-09, 28.4 percent. In respect of employment, the corresponding growth rates were 4.5 per cent, 1.7 per cent and 4.9 per cent. In respect of the number of enterprises, the results reveal the corresponding growth rates as 3.7 percent, 1.2 per cent and 2.5 per cent. The period 2000-06 has shown a declining trend in all the indicators and 2006-09 has recorded a recovery in all the indicators.

Among the sub-regions, Hyderabad and North Coastal Andhra sub-regions have shown much better progress compared to the other sub-regions. This shows the metropolitan pull of Hyderabad and Visakhapatnam districts, and the neighbouring districts linked with them, which has resulted in much faster progress compared to other sub-regions and regions in all the three indicators. In terms of fixed investment during 2006-09, CAGR worked out to 36.8 per cent for Hyderabad sub-region, and 22.8 percent for North Coastal Andhra Pradesh sub-region. In view of this, the Telangana region recorded 33.3 per cent and Coastal Andhra recorded 23.1 per cent growth rate during this period and the State as a whole 28.4 per cent. For the State, the CAGR during 1997-2000 for fixed investment was 17.1 per cent and this came down to 6.3 per cent during 2000-06. The deceleration in growth recorded during 2000-06 was noticed all over the State, though to a smaller extent in Hyderabad and North Coastal Andhra sub-regions. The results show that development of Small Enterprises has taken place in all the regions during the period 1996-2009, though at a much lower pace during 2000-06 compared to the expectations of the planners. Recovery during
2006-09 is quite good, again at a higher rate in the Hyderabad and North Coastal Andhra sub-regions.

The same pattern is observed in the development of Small Enterprises / SSI in Kurnool district as well. The district has recorded an annual growth in fixed investment of 3.4 percent to 5.4 percent during 2004 to 2007, while in 2007-08 it was 10 per cent and 11.4 per cent in 2008-09. A similar pattern is noticed in employment and a number of enterprises' growth rates. Recovery during 2008-09 is evident though it has been varying from one year to another. Number of working registered small enterprises in Kurnool district at the end of March 2009, is 6164, with fixed investment of Rs.207.54 crore and employment of nearly 45539 covering 10 product groups.

There are 41 large and medium scale industries in the district, and 30 large and medium units are under implementation. There are 6 industrial estates and industrial development areas in the district. The district has the potential for development of small enterprises as well as for medium and large enterprises. Synchronization of concreted efforts of organizations, industry associations, and the emergence of new entrepreneurship can pave the way for faster industrialization, utilizing the potential available in the district. Wide spread dispersal and healthy growth, particularly of small enterprises, to withstand the pressures of competitive environment, and development of activities in innovative research and development intensive, and export oriented product lines should be given importance by entrepreneurs in small enterprises as well as in medium and large enterprises.

6.4. Background of the Entrepreneurs and performance of enterprise

6.4.1. Identification particulars of the Enterprise

70.1 per cent of the enterprises have the age of 15 years and above, those within 11-15 years are 18.1 per cent and those of 10 years are 11.8 per cent. All the units are 10 years and above in terms of age. Manufacturing units are 75.3 percent, servicing units constitute 16.7 per cent and processing units are 8 per cent. 84 per cent of the enterprises are proprietary concerns. Only 16 per cent of the enterprises are partnership concerns.
More than half of the units work for 300 days in a year, 21.3 per cent units work 270 days. Those that work for 180-250 days account for 24 per cent.

6.4.2. Socio-economic profile of the Entrepreneur

Age of the entrepreneur at the time of starting the unit: The model age group for starting the enterprise is 31-35 years, followed by 36-40 years and 26-30 years (31.3%, 20.7%, and 19.3% respectively). Nearly 64 per cent of the respondents are 35 years or less. Nearly 58.7 per cent of the entrepreneurs are Other Caste category, Scheduled Castes / Scheduled Tribes constitute only 2.7 per cent and Other Backward Castes 38.6 per cent. Next to Other Castes, Other Backward Castes are the second big group of entrepreneurs. Majority of the entrepreneurs are married, with a small percentage that are widowed, and divorced. Nuclear family system is preferred by the entrepreneurs (80%).

Literacy and Level of Education

21.3 per cent of entrepreneurs are illiterate. Among literates nearly 44 per cent have studied upto High school / Intermediate. Graduates constitute 38.2 per cent. There is only one post-graduate in the sample.

Occupation of the Father

Agriculture is the main background of fathers of the entrepreneurs (50.3%), followed by business (41.5%). Those in service stand next (6.1%) and in manufacturing there are only 2 per cent.

Experience of the Entrepreneurs

The background of the entrepreneurs reveals that most of them have been engaged in agriculture followed by service. Those with manufacturing and trading background are very few i.e., 15 out of 150 (10%), 11 persons (7.3%) have more than 10 years of industry / trading background. Parents, relatives, and friends extended moral support to entrepreneurs, and to a sizeable number of cases, moral and financial support was also made available by them.

Ambitions of the Entrepreneur

Ambitions that prompted the entrepreneurs to start the enterprise have been ranked moderate in all three cases, namely, to be self reliant, to give shape to one's ideas, and to gain social prestige.
Locational factors of the Enterprise

Among factors considered useful for the development of the enterprise, the ranking is given as follows: (1) knowledge of success stories (high), (2) availability of financial resources (moderate), (3) previous experience (low). Most of the entrepreneurs have not received any formal training while setting up the enterprise. Only 10.7 per cent of them were trained in technical and managerial areas over a period.

6.4.3. Structural Characteristics of Enterprises

An analysis in Table 6.1 presents the basic structural characteristics of the 150 sample enterprises, which facilitate a comparative account of the size per enterprise value in each of the product group. Each of these characteristics is discussed in greater detail with frequency distribution tables of each product group for some of the features. The coverage in the sample of mineral based products group is 41.3 per cent of the total sample enterprises. In terms of gross investment in plant and machinery, chemical product group units stand highest (Rs.12.81 lakh), agro product units (Rs.11.55 lakh), and mineral based units (Rs.12.44 lakh). The other three groups have a low investment in plant machinery ranging from Rs.2.77 lakh to Rs.8.19 lakh. Most of the sample units can be considered to be of an investment upto Rs.25 lakh with the exception of seven units in mineral, chemical and agro. Employment per enterprise for agro-based units is 15 persons, mineral based is 14 persons, chemical based units is 12 persons. In the other three group units, the figures range from 4 to 10 persons per enterprise. In terms of gross, total capital is first and output and sale value is second in the mineral based units. With regard to agro-based units, the total capital stands second and output and sales stand first. The gross total investment in chemical units are in third place, output and sales are also in the same place per annum. The other three product groups are low in all the indicators in comparison to mineral, agro and chemical based units. For all sample enterprises the average values are Rs.9.08 lakh gross investment in plant and machinery; Rs.28.92 lakh is the gross fixed capital; Rs.2.28 crore is the total capital employed, Rs.7.48 crore the output, and Rs.9.12 crore sale per annum, and the employment is 11 persons per unit.
<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Product Group</th>
<th>No. of Sample Enterprises</th>
<th>Gross investment in plant and machinery</th>
<th>Gross Fixed Capital</th>
<th>Gross Total Capital Employed</th>
<th>Employment</th>
<th>Gross output per annum</th>
<th>Gross sale for annum</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Mineral based units</td>
<td>62.00</td>
<td>0.41.30</td>
<td>12.44</td>
<td>46.37</td>
<td>58.81</td>
<td>14.00</td>
<td>156.35</td>
</tr>
<tr>
<td>2</td>
<td>Agro based units</td>
<td>34.00</td>
<td>0.22.70</td>
<td>11.55</td>
<td>45.32</td>
<td>56.88</td>
<td>15.00</td>
<td>201.61</td>
</tr>
<tr>
<td>3</td>
<td>Food based units</td>
<td>21.00</td>
<td>0.14.00</td>
<td>6.71</td>
<td>15.05</td>
<td>21.76</td>
<td>9.40</td>
<td>89.52</td>
</tr>
<tr>
<td>4</td>
<td>Chemical based units</td>
<td>12.00</td>
<td>0.08.00</td>
<td>12.81</td>
<td>41.33</td>
<td>54.14</td>
<td>12.00</td>
<td>154.23</td>
</tr>
<tr>
<td>5</td>
<td>Textile based units</td>
<td>3.00</td>
<td>0.02.00</td>
<td>8.18</td>
<td>20.33</td>
<td>28.52</td>
<td>9.60</td>
<td>146.69</td>
</tr>
<tr>
<td>6</td>
<td>Repair and service units</td>
<td>18.00</td>
<td>0.12.00</td>
<td>2.77</td>
<td>5.12</td>
<td>7.89</td>
<td>3.50</td>
<td>-</td>
</tr>
<tr>
<td>7</td>
<td>Total sample enterprises</td>
<td>150.00</td>
<td>0.10.00</td>
<td>54.49</td>
<td>173.53</td>
<td>228.02</td>
<td>10.60</td>
<td>748.40</td>
</tr>
</tbody>
</table>

Source: Computed

Note: In respect of items 6 service enterprises, annual income in value are shown under the sales column.
6.4.4. Structural characteristics – Industry group-wise

Gross investment in plant and machinery per enterprise is the highest for chemical based units, and next are mineral based units followed by agro based units. All other categories are much lower. In terms of fixed capital, mineral based units are highest followed by agro-based units and chemical-based units. However in respect of the gross total capital employed, mineral based units score over agro units followed by chemical-based units. Agro based products have the largest turnover, output and sales among six groups, with mineral based products that stands next, followed by the chemical based products.

In agro-based units investment in plant and machinery is generally lower, i.e., Rs.11.55 lakh per enterprise and the total fixed capital goes upto Rs.50 lakh in most cases, and in some cases Rs.65 lakh. Investment has increased over the years. The average gross output is Rs.2.01 crore and sales average is Rs.2.39 crore per annum. Mineral based product units' investment in plant and machinery is Rs.12.44 lakh, and gross fixed capital is Rs.46.37 lakh per enterprise, and the total capital invested is Rs.58.81 lakh. The minimum total capital is Rs.10 lakh and maximum is Rs.60 lakh. The average gross output stands at Rs.1.56 crore and sales at Rs.1.90 crore per unit, per annum in mineral based units. In chemical based product units, the average investment in plant and machinery value is Rs.12.81 lakh, gross fixed capital is Rs.41.33 lakh and the average total gross capital is Rs.54.14 lakh. Gross output and sales stand at Rs.1.54 crore and 1.78 crore per annum respectively in the recent times.

Textile-based units, food-based units, and repair and service units have an investment in plant and machinery, ranging from Rs.2.77 lakh to Rs.8.19 lakh per unit. The total capital requirements for the units range from Rs.7.89 lakh to Rs.21.76 lakh. The output for the textile unit is Rs.1.47 crore are and the sale value is Rs.1.76 crore per unit. In the case of food-based units, the output value is Rs.89.5 lakh and sale value is 1.09 crore per annum. The annual income from the services, repair and servicing enterprises is Rs.18.15 lakh per annum.
6.4.5. Reasons for under-utilization of Capacity

The average utilization of capacity for all sample units is 76 per cent. Nearly 90 per cent of the units are operating in the range of 70-80 per cent of utilization, which is a very healthy sign. Reasons for underutilization cited by entrepreneurs are as follows: raw material shortage and inadequate power availability ranked as the major reasons, labour trouble as next in importance and those next to them are inadequate credit, and fall in demand. The average value of advertising expenditure incurred by all the units put together in the recent year is Rs.3,36,000.

6.4.6. Share of raw material purchased and markets catered to

Purchase of raw materials by the sample enterprises is largely or even wholly from neighbouring areas, in a small way from other parts of the state and from other states. Nearly 96 per cent of the enterprises buy more than 50 per cent of their requirements from neighbouring areas. This includes 70 per cent of the units, buying all their needs from neighbouring areas. Out of 26 units which purchase from outside the state, 6 of them buy upto 100 per cent and 20 of them upto 50 per cent of their needs. Among 35 units which buy from other parts of the state, 97 per cent of them buy upto 40 per cent of their needs from outside the state. Similar is the case with respect to marketing of products. Out of 150 units, 149 sell in the neighbouring areas, 14 in other parts of the state, and 7 in other states. Regarding sales of 7 units which sell in other states it is noticed that they sell only upto 30 per cent of their total sale in that segment. Out of 14 units which sell in other parts of the state, 9 (64.3%) sell upto 20.0 per cent of their total sale, and 5 (35.6%) sale upto 40 per cent of their total sale. Hence it can be stated that nearly 90 per cent of the units sell in the neighbouring areas to the extent of more than 50 per cent of the total sale, even upto 100 per cent. It is noticed that upto 90 per cent of units sell in the neighbouring areas, sell upto 100 per cent of their production / sale in the nearby areas. This speaks of high backward and forward linkages.

6.4.7. Employment

Employment per enterprise, for all sample enterprises put together works out to 11 persons in recent years. With agro-based units standing first (15 persons) followed by mineral based units (14 persons) and chemical
units (12 persons). In the other three product groups, the average employment is in the range of 4 to 10 persons. Employment has increased over the years in the sample enterprises. Employment for all sample enterprise works out to 9.7 per cent over a period of ten years (2000-2009). The employment has been increased (overall) is from 5.9 per cent to 13.8 per cent from 2000-2009. The employment has increased to 7.9 per cent over a period of ten years. Nearly 70 per cent of the units employ less than ten persons per each unit at present.

6.4.8. Capital Utilized in the Enterprise-owned and borrowed

The average amount of capital raised from different sources, including promoter’s contribution, and average net worth of the enterprises (present position) is given in Table 6.2.

**TABLE 6.2**
CAPITAL RAISED BY PROMOTERS AND NET WORTH PER ENTERPRISE

(Rs. In Lakhs)

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Product Group</th>
<th>Average amount of capital raised from different sources (1)</th>
<th>Average net worth present position (3)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Mineral based units</td>
<td>42.67</td>
<td>90.93</td>
</tr>
<tr>
<td>2</td>
<td>Agro based units</td>
<td>41.41</td>
<td>92.86</td>
</tr>
<tr>
<td>3</td>
<td>Food based units</td>
<td>14.85</td>
<td>36.46</td>
</tr>
<tr>
<td>4</td>
<td>Chemical based units</td>
<td>38.83</td>
<td>89.68</td>
</tr>
<tr>
<td>5</td>
<td>Textile based units</td>
<td>25.82</td>
<td>61.33</td>
</tr>
<tr>
<td>6</td>
<td>Repair and service units</td>
<td>3.84</td>
<td>9.72</td>
</tr>
<tr>
<td>All sample enterprises</td>
<td>25.77</td>
<td>63.50</td>
<td></td>
</tr>
</tbody>
</table>

Source: Computed
Table 6.2 reveals that agro product units stand first, followed by mineral product units and chemical product units creating an average net worth at present. Corresponding values of the remaining three product groups are lower than another three product groups. For all enterprises, the average amount of capital raised works out to Rs.25.77 lakh. Regarding institutional borrowings, it is observed that only, 46 out of 150 enterprises have opted for institutional borrowings; 23 of them from State Bank of India, and the remaining from Andhra Bank (7 enterprises), Canara Bank (3) ING Vysya Bank (2) State Bank of Hyderabad (3), Indian Overseas Bank (4), ICICI Bank (1), Corporation Bank (3). The State Bank of India is thus the major bank financing small enterprises in the district. The other banks next in importance are The Andhra Bank, The Indian Overseas Bank, The Canara Bank and The Corporation Bank. It is surprising to find that only 30.7 per cent of sample enterprises have taken institutional loans. It is clear that along with promoter’s contribution, personal and informal sources, apart from trade credit constitute the capital raised by not only the enterprises which have not availed institutional loans, but the same happens to be the case even in respect of enterprises which have borrowed from institutional sources. Institutional credit is thus limited to less than one-third of the sample enterprises.

6.5. Problems faced by Small Enterprises

Problems of small enterprises have been analysed in major functional areas of management. These include production, labour, transportation, marketing and finance. Overview of the entrepreneurial assessment on the impact of liberalization has also been captured using Likert scaling technique.

6.5.1. Production

Production aspects analysed for diagnosing the problems are: procurement of raw material, quality control, and related problems, reasons for increase in the operational cost and factors leading to higher cost of production, problems in the development of new products, main reasons for product failure, and the problem of power cut.
In the procurement of raw material in relation to the proper source of supply, its quantity, quality, reliability and availability at the correct price and time, the entrepreneurs have stated that they have not experienced any problems. In respect of the availability of facilities for quality control, the view is that there are no proper testing facilities in their region. Problems experienced in quality control are quality of the raw material, lack of modern technology, absence of support from government agencies, problems experienced with the Bureau of Indian Standards inspectors, and low efficiency of workers.

Increase in the operational cost of the firm can be attributed to high cost of raw material and working capital, followed by high labour cost and low utilization of plant and machinery. Majority of the units felt that they are able to sell at lower rates compared to their competitors. Increase in the operational cost of the firm and factors leading to high cost of production can be stated as follows: high cost of raw material and working capital, high labour cost, low utilisation of capacity, power shortage, and shortage of technical skills. However, a majority of the units felt that they are able to sell at a lower price compared to their competitors. In the development of new products, problems stated are: lack of innovations, intense competition and likely high cost of production of new products. Main reasons cited for product failure are: high price of inputs, keen competition, lack of quality, and inadequate marketing efforts.

6.5.2. Methods of Remuneration of Labour

Labour is remunerated with bonus, medical assistance, provident fund and granting of leave. It is important that all the units should uniformly provide these services to employees. It will be helpful, if through the collective efforts of small and medium enterprises, and with tie-up arrangement with the State Housing Board, low cost housing can be organized for industrial employees.

6.5.3. Transportation

Ninety five per cent of the enterprises are using road transport and largely private carriers, apart from their own vehicles. Road transportation is considered economical, though it is agreed that rail transportation is much cheaper. Due to non-accessibility of railway network in rural areas and
bottlenecks in rail movements, entrepreneurs prefer road transportation. The fee charged by private carriers is relatively heavy. The entrepreneurs prefer improved transportation facilities by improving the quality of roads for industrial use. Inadequacy of road and rail transportation is a problem faced by the enterprises.

6.5.4. Marketing

Marketing aspects analysed are: channels of distribution, incentives such as reservation for Government purchases, and price preference, for government purchases from small enterprises, problems faced in selling the products, branding as a market strategy, distribution problem, pricing policy, desirability of pricing strategies, objectives of price policy, awareness about various approaches of pricing policy, insurance of goods in the industrial units at various stages of production, and competition for the products.

Nearly 61 per cent of the units are marketing the products on their own without going through any of the distribution channels. In view of this, zero level channel (manufacturer to consumer) is predominant (60% of units), 20 per cent of the units use first channel (manufacturer-retailer-consumer), 16.7 per cent use second channel (manufacturer-wholesaler-retailer-consumer), and very few (3.3%) resort to the other channel of distribution (manufacturer-agent-wholesaler-retailer-consumer). This shows that a majority of the units are in the micro enterprise group, which is known for relatively low investment in small enterprises, or would have slightly crossed that limit to a moderate extent. It is also seen that all enterprises are aware of the zero level and one level channel. Less number of units are aware of the second channel, and a much small number are aware of the relevance of the third level of distribution. Majority of units, transport goods to the distributor through private transport or transport of the distributor and the rest through their own transport. Most of the units are not availing any of the incentives offered by the Government for sale of products, such as reservation for Government purchases or price preference or market development assistance. More than half of the enterprises are not finding it difficult to sell the products. The other half has expressed problems of sale. Problems pointed out by other 50 per cent of respondents related to high cost of production. Lack of demand, absence of marketing facilities from the
Government, lack of storage and warehousing facility and competition from medium and large scale units. Only 13.1 per cent of the respondents are branding their products, largely using symbol. A few are using design for brands.

Problems pointed out by the enterprises with regard to distribution are: problem from the distributor, selection of the distributor, high margins of distributors, lack of risk coverage, and transportation and warehousing bottlenecks. With regard to sales promotion measures, more than 90 per cent of the units are pursuing the work on their own is individually, and very few are taking assistance from the Government through the facilities that are available from various institutions.

With regard to the pricing policy, a number of aspects are examined. More than 60 per cent of the units adopt cost plus pricing. Competitive pricing, demand oriented pricing, and differential pricing are adopted by 21.1 per cent, 8.5 per cent, 7 per cent of the units respectively. Positive response on the desirability of adopting three types of pricing is near unanimity for cost plus pricing, competitive pricing and demand oriented pricing. Responses of entrepreneurs reveal that achieving the target sale is the main objective of the price policy. Improving the market share is another objective that most units are aware of. Others who are aware of the other objectives of price policies such as to stabilize prices, prevent competition and maximize are very few. Competition appears to be the biggest problem in pricing. Only 26 per cent of units are insuring their goods – inventories, raw material, goods in process and finished goods. With regard to insurance, problems cited are high premium as the main problem, others being delay, and lack of compensation. On marketing of products as a whole competition is stated to be the key problem to be addressed by entrepreneurs to evolve desirable strategies in the liberalized context.

6.5.5. Finance

Problems in obtaining financial assistance by entrepreneurs has been examined from a number of angles. Nearly one-third of the units have not availed of finance from institutional sources. Only two-thirds have attempted to avail of finance from formal institutional channels with varying experiences. Out of those who planned to avail of institutional finances only
half of them succeeded in getting funds, very often an inadequate amount compared to their needs. The problems cited are: delays, collateral security asked for by institutions, follow up of loan disbursed and incidental expenses incurred. Among these, procedural delays and insistence on collateral security were the main problems. Many of the entrepreneurs have expressed difficulty in offering sufficient collateral security to the banks and financial institutions. A few felt the behaviour of the bank was slightly rude. Regarding the quantum of financial assistance asked for, the responses reveal that for nearly 41 per cent of the respondents, the need is less than Rs.5 lakh, and for 18 per cent between Rs.5 and Rs.10 lakh. Only 18 per cent of the units wanted a loan of above Rs.30 lakh. Nearly 40 per cent of the sanctioned cases were below Rs.5 lakh per unit, and for 21 per cent of units, the loan sanctioned is above Rs.30 lakh. Comparison between the number of units which asked for loan, and those which were sanctioned, reveals that sanctioning is far less than half the number of the required units. The cases of the remaining half have been rejected. Regarding the adequacy of the sanctioned amount, nearly half stated that it was inadequate. They wanted a higher amount to be sanctioned.

Attitude of the financial agencies was examined to meet the risk in various contexts of unforeseen contingencies. More than half of the respondents felt that the attitude of banks / financial institutions was helpful in contexts such as underutilization of capacity, bankruptcy, unfavourable economic conditions, natural calamities, and sickness. The other half of the respondents found the attitude of institutions helpful. Nearly one-third of the total sample units did not respond to the question. The responses are thus mixed. To the query on inspections carried out by various agencies including financial institutions and banks. 40 per cent of the responses reveal it is not helpful, while 31 per cent claim it is helpful, and 29 per cent say it is harassing.

Among the suggestions made to improve financial services for small enterprises, the overwhelming view was that loans should be permitted without collateral security and low interest rate for industrial units of moderately low investments. Regarding power supply management, the suggestion made is reduction in power tariff to industrial units, and subsidy
to be given for purchase of a diesel generator. Regarding labour-management relations, cordiality was expressed by most of the enterprises.

6.5.6. Results of testing of the Hypothesis

Problems of small enterprises in the development of enterprises as presented in sections 6.5.1 to 6.5.5 reveal that the hypothesis as started in section 6.1 of this chapter, as well as in chapter II part I has been proved right. Problems continue to persist, perhaps with varying intensity over the years. These need to be appropriately addressed by the Central and State Governments, and collectively by the Industrial association to improve the environment for industrial development.

6.5.7. Impact of liberalization on small enterprises

Impact of liberalization on small enterprises has been assessed based on the responses of entrepreneurs on a three point graded Likert scale on eleven aspects and in many cases moderate improvement, and no improvement, were indicated. The overall assessment based on the Likert scaling weighted mean, standard deviation, and spread of the mean reveals moderate improvement for seven aspects, and low impact for four aspects. Aspects where low improvement was recorded are (i) improved credit facilities, (ii) facilitative role of the Government, (iii) overall assessment, (iv) assessment of business strategies. Moderate impact / improvement were recorded in respect of the following aspects: (i) simplification of procedural aspects, (ii) availability of raw materials, (iii) enlargement of market prospects, (iv) flow of information, (v) improved infrastructure, (vi) collective / collaborative efforts of units and (vii) institutional assistance for further development. The viewpoints and assessment given by the entrepreneurs reveal that lot more remains to be done in a substantive way to rise to the expectations of entrepreneurs to ensure significant impact of liberalization for the speedy progress of small enterprises.

6.6. Suggestions for accelerating the growth of small enterprises

The responses of entrepreneurs as analysed in chapter IV and V bring out a number of viewpoints on the observations made by entrepreneurs and industrial associations to accelerate the pace of industrial development in industrially advanced as well as less developed districts. Kurnool district is known low industrial development, relatively compared to
the potential. Analysis presented of the earlier viewpoints and suggestions of entrepreneurs and industrial associations has been discussed with industrial organizations of district and state level with knowledgeable persons and bankers. In the light of the consensus evolved through these deliberations, a few suggestions for evolving an action strategy are presented in this section to increase the tempo of industrialization, particularly in the small enterprises sector. Some of them would be applicable to the medium sector as well.

The impact of liberalization on small enterprises sector reveals moderate and low record in the following areas as assessed by entrepreneurs. These are: (1) improved credit facilities, (2) facilitative role of the Government, (3) business strategies, (4) improved infrastructure, (5) institutional assistance for development, (6) collective/collaborative efforts of enterprises, and (7) flow of information. Some of the other aspects on which attention needs to be focussed are: strengthening institutional support for marketing, improving the benefits admissible to industrial workers, export promotion, technological upgradation / modernization, quality assurance, and quality certification.

In many of these aspects, it is not that institutional facilities are not available, in many contexts, these are not accessible to entrepreneurs and neither are the entrepreneurs familiar with the expectations of organizations on what role entrepreneurs/industrial associations should play for creating awareness about the challenges of competitive environment strategies to be adopted, and steps to be taken by entrepreneurs to overcome the challenges. A few suggestions are listed here to improve the present situations.

6.6.1. Accessibility and affordability of credit from institutional sources

As per the present guidelines from the Reserve Bank of India in vogue among commercial banks, collateral free loans are given to small enterprises upto a limit of Rs.5 lakh and upto Rs.25 lakh in respect of enterprises with a good track record. Liberal credit facilities are made available to women entrepreneurs, and Scheduled Caste / Scheduled Tribe entrepreneurs. Mutual Guarantee Fund (MGF) can be set up by industrial associations, which can remain guarantee for loans given to units by banks. Association of Lady Entrepreneurship of Andhra Pradesh (ALEAP) has
created MGF, and has set up ALEAP credit guarantee under Section 25 of the Companies Act, 1956. ALEAP entered into an agreement with the credit guarantee fund trust for micro / small enterprises (CGTMSE) on one side and a few individual nationalized banks on the other side. Women entrepreneurs can take advantage of this facility. Federation of Andhra Pradesh Small Industry Associations (FAPSIA) can consider a similar step for the benefit of micro and small enterprises.

Another effort in this direction is credit rating of enterprises in the SME sector. The SME Rating Agency of India (SMERA) can pursue this direction, under the umbrella of Small Industries Development Bank of India (SIDBI). When units are credit rated they are able to get loans from nationalized banks at a concessional rate of interest and other concessional terms. SIDBI and a few other banks have been offering reduction of interest rates on loan to units rated by SMERA. 75 per cent of the fees charged for credit rating is reimbursed by the Government of India through the National Small Industries Corporation (NSIC). Credit rating is a win-win situation for the borrowing units and leading banks / financial institutions.

6.6.2. Cluster development for technological upgradation / modernization and export promotion

Cluster approach is advocated for small and medium enterprises for improving productivity and enhancing competitiveness. Focus can be on modernization or export competitiveness or both. SIDBI has established a mechanism for cluster coordination between bank branches and its branches located in clusters, and takes up co-financing with bank branches through a strategic alliance with banks.

6.6.3. Facilitative role of the governments, publicising the facilities available material from various organizations, and nodal agency at the district level.

There are many things that Government organizations can plan to do to enable small entrepreneurs take advantage of the existing schemes under implementation. It is important to make available literature in the form of guidelines to entrepreneurs on facilities available from various sources and procedural details, including application forms. These could be brought out as a publication, and published in the public, private partnership mode, in
collaboration with the Federation of Andhra Pradesh Small Industry Associations (FAPSLA).

Awareness and management development programmes can be organized in consultation with the district industries centre and industrial associations to solicit the responses of entrepreneurs. Quality certification, bar coding, intellectual property rights, preparedness to cope up with the challenges of the WTO, environment, enhancing export competitiveness and export promotion measures, are some of the areas on which programmes can be organized for the benefit of entrepreneurs of one or more nearby districts. Generation of awareness and inculcating the spirit of competitiveness and enhancing productivity in the desirable directions are very important. DIC at the district level has to play a prominent role as the nodal agency.

6.6.4. DIC as the single window agency and resource centre for small entrepreneurs

Existing and prospective entrepreneurs place demand for a variety of services with a number of agencies. DIC acts as a coordinating mechanism as it is to provide single window services to obtain clearness from the concerned agencies at the district level, by making available the necessary facilities. It also acts as a resource centre for entrepreneurship development, creating an entrepreneur-friendly or investor-friendly environment as the goal of entrepreneurship development strategies. Entrepreneurs should be advised to visit specialized institutional, R & D organizations, relevant to their product lines, gather ideas, and pursue them at the field level with the cooperation of the field teams. Collective efforts of entrepreneurs in clusters of various product groups can result in significant achievements at the regional level. Many activities can be organized by the DIC in collaboration with industrial association through public-private partnership. Resource centres and advisory services can be strengthened by the industrial associations and panel of specialists acting as consultants to advise, the entrepreneur. Mentoring is one of the strategies adopted for providing guidance to prospective entrepreneurs at the local level on a continuing basis. Mentoring is a concept being popularised at present, to avail of the services of experienced persons as panel members to guide existing and
perspective entrepreneurs in various product lines. Association between a panel member and the existing and prospective entrepreneurs can be for a few years till the unit gets well established. The services can be charged after the gestation period. This will motivate entrepreneurs with inadequate experience to feel confident, pursue their goals vigorously, and overcome hurdles if any, in the first few years of the enterprise.

6.6.5. **Industrial units should be assured of quality power supply, moderate tariff compared to the present pattern**

6.6.6. In the context of marketing of products Government purchase preference and Government purchase policy for procurement from small enterprises, market development assistance for participation in trade fairs within the country and in other countries should be publicised and response from entrepreneurs sought for strengthening the contribution of the sector in these directions. Export facilitation centre at the Federation of Andhra Pradesh Chambers of Commerce and Industry should play an active role by opening a centre in Kurnool to counsel entrepreneurs and to organize training / orientation programmes. More focused flow of information to entrepreneurs and feedback from entrepreneurs should be a regular process through dialogue in the concerned arena for a, inter-firm relationship and consortia approach are other directions of marketing. All these can be pursued by adopting a public-private partnership mode (PPP).

6.6.7. **Transportation facilities for industries**

Thorough road and rail communication should be improved, taking into account the needs of industrial units in the region. More facilities should be provided to enable entrepreneurs to send goods to distant markets, including exports.

6.6.8. Labour-management relations should be further improved. Facilities for employees including workers should be provided uniformly. These include bonus, insurance, medical and housing facilities. Low cost housing for industrial workers may be planned in consultation with the State Housing Board by small enterprises in a region through collective efforts. Regional development, periodic dialogue with entrepreneurs at the district, state and national level can result in realistic policies and motivate entrepreneurs to work more closely with the governmental organizations. Regional development strategy should be the guiding principle for accelerated industrialization.