CHAPTER – 1
INTRODUCTION

1.1 Introduction

The Small and medium enterprises (SMEs) have been the vital constituent of India’s industrial sector. In India about 30 million units of SMEs accounted for 17 percent of the country’s GDP and generating 40 per cent of employment in 2011. Small and Medium Business Development Chamber of India projects the share of SMEs in the expansion of the Indian economy through GDP to the extent of 22 percent in 2012. The prediction is backed by its estimation of 12 million additional people joining the SME sector as employees over the period 2012-14; While SME units currently employ 60 million people. The units in India are classified under the MSMEs (Micro, Small and Medium Enterprise) category on the basis of their investment size. Manufacturing enterprises are classified with respect to their investment in plant and machinery, while the classification of service enterprises is based on investment in equipment. Small and Medium Enterprises play a vital role for the growth of Indian economy by contributing 45 per cent of the industrial output, 40 percent of exports, create one million jobs every year and produces more than 8000 quality products for the Indian and international markets. As a result, MSMEs are today exposed to greater opportunities for expansion and diversification across the sectors.

The undesirable thing is that SMEs in India, due to their low scale and poor adoption of technology, have very poor productivity. Because, many firms stay small, unregistered and un-incorporated in the unorganised sector so that they can avoid taxes and regulations. The firms have little incentive to invest in upgrading skills of largely temporary workers or investing in capital equipment. Small and Medium Enterprises (SMEs) have played a vital role in India’s economic growth.

The small and medium enterprises have been playing a prominent role in the socio-economic development of the country for the past five decades along with industrial progress. It has direct impact on the growth of national economy through the establishment of a more flexible, innovative and competitive industrial structure. In the context of liberalization as experienced through integration with the global
economy in a phased manner, the national and international competitive environment, perspectives and strategies for small and medium enterprises development have undergone a sea-change.

SME sector contributes significantly to Indian economy. As per the third All India census held for the year 2001-02 and fourth all India Census held for 2011-12, during this decade a tremendous growth has been registered. There were 105.21 lakh enterprises in the country which has increased to 361.76 lakh units. That is to the extent of 13.25 percent per annum. Out of which the number of registered units has also increased from 13.75 lakh to 15.64 lakh units that is 1.30 per cent per annum while as, un registered working enterprises has also increased from 91.46 lakh to 198.74 lakh units, its decadal growth rate was 7.68 per cent. Their contribution to production value has also increased from Rs.2, 82,270 crore to Rs.10,77,212.86 crore and its growth during this period was 14.33 and the employment of MSMEs has also increased from 249.32 lakh persons to 805.24 lakh persons and it has increased to 12.44 per cent. This evidence reveals that small and medium enterprises (SMEs) have been the backbone of the Indian economy. Employing close to 40 per cent of India's workforce and contributing 45 per cent to India's manufacturing output, SMEs play a critical role in generating millions of jobs, especially at the low-skill level. The country's 1.3 million SMEs account for 40 per cent of India's total exports during 2011-12. The SME sector has been consistently registering a higher growth rate than the overall industrial sector in the past few years. Despite recession and economic slowdown small scale units still account for one-third of manufacturing GDP and more than two-thirds of manufacturing employment. The Ashok Kumar Mohanty and Mahan Mahapatra (2007)\(^1\) expressed that with lower labour costs and skilled manpower, SMEs have the potential to cater to the outsourcing needs of large scale units and MNCs. Emergence of high tech sectors such as aqua culture, tissue culture, agro processing industries, green house farming etc, in rural areas open new vistas for growth for SME sector. However, for SMEs to surge ahead they must remain competitive.

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\(^1\) Ashok Kumar Mohanty and Mahan Mahapatra (2007), *Financing of Small and Medium Enterprises in India*, Serials publications, New Delhi, pp.xiii+213
As a result of globalization and liberalization, coupled with WTO regime, Indian SMEs have been passing through a transitional period with slow down of economy in India and abroad, particularly USA and European Union and enhanced competition from China and a few low cost centers of production from abroad consequently many units have been facing a tough time in India.

Those SMEs who have strong technological base, international business outlook, competitive spirit and willingness to restructure themselves shall withstand the present challenges and come out with shining colours to make their own contribution to the Indian economy².

In India, banking system is the dominant channel for providing funds to industry. However their importance in funding smaller firms is even more prominent since most SMEs are not able to access the capital markets for funds. In recent years government’s and policy makers have been giving considerable attention to facilitate the development of the SME sector, as a strong and vibrant SME sector provides a good foundation for entrepreneurship and innovation in the economy.

SMEs always represented the model of socio-economic policies of government of India which emphasized judicious use of foreign exchange for import of capital goods and inputs; labour intensive mode of production; employment generation non-concentration of diffusion of economic power in the hands of few (as in the case of big house); discouraging monopolistic practices of production and marketing; and finally effective contribution to foreign exchange earning of the nation with low import-intensive operations it was also coupled with the policy of de-concentration of industrial activities in few geographical centers.

The new Industrial policy of 1991 proposed several changes relating to small sector with view to making small enterprises economically viable and financially strong with regard to financial support to the sector, the policy envisaged adequate flow of credit, equity participation to the extent of 24 percent by non SME undertakings, provision for supply of risk capital through limited partnership and

² Government of India, Ministry of MSMEs, 2009-10, New Delhi.
measures to ensure speedy payment arising from sale of products. The working capital needs for SME sector are met mostly by the commercial banks. The medium and long term finances for these units are primarily provided by Development Finance Institutions.

State Financial Corporation’s (SFCs) have been playing an important role in the promotion and development of small and medium enterprises in the state. There are 19 SFCs in the country, out of which 18 were established under SFCs Act 1951.

The Tamilnadu industrial investment corporation ltd, established in 1949 under the companies Act, also functions as SFC.

State Financial Corporations were established primarily to cater to the financial requirements of small and medium enterprises, the former being considered to be relatively more important. In the early years of their functioning, the SFCs did not uniformly pay adequate attention to meeting the needs of small and medium enterprises. Gradually, however, partly as a result of direction from government and the Reserve Bank and partly as a matter of good business, SFCs have steadily expanded their assistance to SMEs. The progress in this regard has been rapid in recent years, some stimulus in this direction coming from the nationalization of 14 commercial banks.

KSFC has ventured into diversification in infrastructure development activity with the public/private participation model. The corporation has been allotted 10 acres land in Harohalli industrial area and 25 acres of land in Mysore by the State level single window clearance committee. It is proposed to develop IT/BT/SME Park in these lands. During the year, 2009-10 the corporation introduced the working capital term loan scheme for existing units to provide timely and adequate working capital assistance to the existing SMEs. KSFC and Karnataka State Small Industries Development Corporation (KSSIDC) have entered into an agreement mutually to extend a helping hand to SMEs in Karnataka.
KSFC is a leading financial institution, whereas KSSIDC is engaged in the activity of providing basic infrastructure facilities for the development of SMEs across the state including supply of raw materials through its 23 raw material depots.

The SME sector in India constitutes an important part of the economy. However a major concern for the SMEs is the availability of an adequate amount of finances. The government has recognized the key role that the SME segment plays in creating new enterprises and in providing employment to a large segment of the population and has adopted several public policy measures to enhance flow of credit to the sector.

One of the prominent measures used to ensure adequate flow of funds to the SME sector is through regulation requiring banks to provide at least 40 per cent of loans to targeted areas which include the SMEs. Although directed lending would increase the flow of funds to the SME sector, studies such as Banerjee, (2004) suggest that SME firms are credit constrained.

Small and medium enterprises (SMEs) have been considered one of the ‘driving forces’ of modern economies due to their multifaceted contributions in terms of technological innovations, employment generation, export promotion, etc. The ability of SMEs to innovate assumes significance because innovation lends competitive edge to firms, industries and ultimately, economies. Therefore, technological innovation has the potential to spur growth of individual enterprises at the micro level and aggregate industries and economies at the macro level. The issues such as factors that will to drive SMEs for innovate, the nature of SME innovations, the achievements of SMEs innovations, and the outcomes of these achievements. These issues has been probed in the context of SMEs in auto components, electronics, and machine tool sectors in the city of Bangalore, the only global hub of technological innovation in South Asia and the highest ranked global hub in the entire Asia (UNDP) 2001\textsuperscript{3}. Their contribution to employment is considerably significant.

As of July 2006, about 140 million SMEs in 130 countries employed 65 per cent of their total labour force (IFC 2006). Small and medium enterprises (SMEs) occupy a place of strategic importance in national economic development by facilitating flows of information, capital and investments of people and products (UNDP 2007). In 2005-06, the small-scale industries segment of SMEs generated employment to the extent of 29.5 million, which was much higher than the total organized sector employment of 26.5 million (Ministry of Finance 2008). In fact, one of the major objectives of SME promotion by policymakers since independence and even during the period of economic liberalization since 1991 has been to accelerate employment generation to absorb the large and growing labour force.

The presence of SME sector is universal and a major portion of the industrial sector prevails all over the world. In India, small and medium enterprises (SMEs) sector is a major contributor to the growth of employment and output of the economy. In quantifiable terms, it contributes nearly 40 per cent of the total industrial output and 35 per cent of exports. This sector contributes to the extent of 7 per cent of the GDP. The growth rate in this sector has consistently been higher than the average industrial growth rate. The Tenth Plan has focused the SSI growth rate target at 12 per cent, whereas the same for industrial sector in general is 8 per cent.

After agriculture, MSME sector is the largest employment generator. There are 11.4 million SME units, employing 27.1 million people today. The share of employment provided by this sector is 45 per cent of the total employment in the country, and 80 per cent in the industrial sector. Post-liberalisation growth rate of employment in India in SSI sector has been 4 per cent, whereas it is just 1 per cent in the general industrial sector. Capital invested in this sector is around Rs.85,000 crores. The MSME sector constitutes 95 per cent of the total industrial entities in the country. The MSME sector had a strong presence not only in India but also in the developed economies.

The share of SMEs in the total number of business establishments is 99 per cent in Japan, 98 per cent in USA, 97 per cent in Singapore and Taiwan, and 90 per

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cent in Korea. The share of SMEs in providing employment in USA is 53 percent, in Japan 72 percent, in Taiwan 79 percent and 58 percent in Singapore.

With the advent of planned economy form 1951 and the subsequent industrial policy followed by government of India, both planners and government earmarked a special role for small-scale industries and medium scale industries in the Indian economy. Due protection was accorded to both sectors, and particularly for small scale industries from 1951 to 1991, till the nation adopted a policy of liberalization and globalization. Certain products were reserved for small-scale units for a long time, though this list of products is decreasing due to change in industrial policies and limits

M. H. Bala Subrahmanya, M. Mathirajan, and K. N. Krishnaswamy (2010)\(^5\) Importance of Technological Innovation for SME Growth Evidence from India, Working Paper No. 2010/03 investigates the drivers, dimensions, achievements, and outcomes of technological innovations carried out by SMEs in the auto components, electronics, and machine tool sectors of Bangalore in India. It also estimates the growth rates of innovative SMEs vis-a-vis non-innovative SMEs in terms of sales turnover, employment, and investment and probes the relationship between innovation and growth of SMEs by estimating a correlation between innovation sales and sales growth, calculating innovation sales for high, medium, and low growth innovative SMEs. Innovative SMEs registered higher growth relative to non-innovative SMEs in terms of not only sales turnover but also employment and investment in all the three sectors. There was a statistically significant positive correlation between innovation sales and sales growth. Innovative SMEs, which experienced higher growth accounted for a higher share of innovated products in their total sales relative to those which experienced lower sales growth. Innovation sales, along with investment growth and employment growth, had a positive influence on Gross Value Added growth, in all the three sectors. To conclude, our overall analysis lends substantial credence to the argument that innovation contributes to the growth of firms.

1.2 The Concept of Small and Medium Enterprises

A new 'perspective' for SMEs development that seeks to remove 'the official
restraints under which it has been operating until now and also to facilitate its
ascendancy to the level of medium enterprises, is the introduction of the composite
concept of SMEs (small and medium enterprises). Putting small enterprises in the
category of their medium counterparts under the new SMEs dispensation is an
organizational innovation which is still evolving and has yet to acquire final official
authentication. More significantly, its workability and positive outcome will get
established only after some years.

A new composite sector comprising small and medium enterprises (SMEs) is
the product of such thinking. It is believed that the new organizational setup would
address many of the institutional, technological and marketing constraints that have
been plaguing parts of the small-scale sector. Again, thanks to the rising significance
of services and trade enterprises in the Indian economy during the past decade or so,
the new SME sector also includes services and trade activities within its domain.

Small and Medium Enterprises Development Bill is already on the doorstep of
the Indian Parliament. According to the Bill, small and medium enterprises would
have their own separate definitions, and a number of policy and institutional measures
are visualized to put the composite SME sector on a healthy growth trajectory.
According to the proposed Bill, any enterprise engaged in the manufacture or
production of goods pertaining to any industry would be officially designated as a
small enterprise if the investment in plant and machinery does not exceed 50 million
rupees; in the case of a medium enterprise, the corresponding investment limit would
be more than 50 but less than 100 million rupees.

In the case of enterprises providing or rendering a service, a small enterprise
would have the investment limit up to 20 million rupees while for a medium
enterprise it would vary between 20 and 50 million rupees. To make the investment
limits serve the stated objectives of effecting technological up-gradation, realizing
economies of scale, and achieving higher production efficiency, investment in land
and buildings or equipment is not to be taken into account while determining the
quantum of investment in plant and machinery. The underlying philosophy is to help a
small unit of today graduate itself to become a medium unit of tomorrow. Admittedly, the helping hand is intended to the primarily directed to small enterprises, because the pace of economic transformation in general, and the future of India's industrialization in particular, critically depend on the survivability, growth and expansion of its SSI sector (Mohan, 2001: 79-82). Incidentally, the investment limits proposed for a small enterprise, in the forthcoming Bill are substantially higher than what have been in vogue during the recent past.

The term SMEs envisages a wide range of definitions and measures, varying from country to country and between the sources reporting SME statistics. The commonly used criteria are the number of employees, total net assets, sales and investment level. Further, the most common definitional basis used is employment, and here again, there is variation in defining the upper and lower size limit of an SMEs. Despite this variance, a large number of sources define an SMEs to have a cut-off range of 0-250 employees. All the sources focus on SMEs in the manufacturing sector. The SMEs are defined as formal enterprises and thus different from informal enterprises.

The main indicator is therefore based on employment. The Small and Medium Enterprises comprised of 250 is the share of the SMEs sector in the total official labour force when 250 employees are taken as the cutoff for the definition of an SMEs. The small and medium enterprises with 250 labour under classification, the SME sector cutoff could range from 200-300 employees. There are few instances of this range occurring, with data for most other countries reported for an exact cut off of 250 employees. There are 54 countries of SMEs with the labour of 250 sample, at least 13 of which are low income countries, about 24 are middle income and nearly 17 are high income countries. In constructing the employment figures for different countries, has used multiple sources, and any available data from the 1990s.

It has also construct another set of employment measures the retaining the official country definition of SMEs. The share of the SME sector in total the source

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for out data on the African Countries defines an SME to be less than 200 employees and for Japan, the cut-off used is 300 employees.

Official labour force of a country definition of SMEs is used, with the official country definition varying between 100 and 500 employees. The choice of source in this case depended largely on the source used for similar countries and was usually one of the five main sources quoted below. Consequently, the study has 76 countries in the SME sample, of which 17 are low income countries, 31 are middle income and 28 are high income countries. Since only some countries have 250 employees as the official cut-off, the number of countries in the SME of 250 samples is a subset of the number of the countries in the official sample. Similar to the SME 250 sample, the SME OFF measures constructed are numbers averaged over the 1990s.

To measure the contribution of the SME sector to the economy, the study also used SME GDP, which gives the share of the SME sector, as defined by official sources, relative to GDP. As in the case of SME, variance in the official definition of the SME sector may drive part of the variation in this indicator. We have data for 35 countries.

1.3 SME Sector: Definition Criteria

In India, capital investment in plant and machinery has been used as the criteria for definition. As per the prevailing definition, Small Scale Industry (SSI) in India is defined as “An Industrial undertaking in which the investment in fixed assets in plant and machinery. Whether does not exceed Rs.10 million (US$ 0.21 million). “In preview of the government policies and overall economic environment, the definition of SSI kept changing over the years.

SME are defined according the definition given by the Micro small and Medium Enterprises Act (2006) of India are enterprises having investment in plants and machinery up to Rs.100 million are SME.

Definition:

a) Registered Sector: Enterprises registered with District Industries Centers in the State/ UTs., KVIC/ Khadi and Village Industries Board, Coir Board
as on 31.03.2007 and factories under the coverage of section 2(i) and 2(ii) of the Factories Act 1948 used for Annual Survey of Industry having investment in plant and machinery up to Rs 10 crore were considered to belong to registered sector.

b) **Unregistered Sector**: All enterprises engaged in the activities of manufacturing or in providing or rendering of services, not registered permanently or not filed EM with State Directorates of Industries or District Industries Centers on or before 31-3-2007 are called unregistered enterprises. Those enterprises that are temporarily registered on or before 31-3-2007 as also the units that are temporarily or permanently registered or filed EM after 31-3-2007 till the date of Sample Survey, conducted as part of Fourth All India Census of MSME, 2006-07 were treated as unregistered enterprises for the purpose of this survey. Enterprises found forming part of registered sector as defined above were excluded from the coverage of unregistered sector.

c) **Small Scale Industrial Unit**: An industrial undertaking in which the investment in fixed assets in plant & machinery, whether held on ownership terms, or on lease, or by hire purchase, does not exceed Rs. 100 lakhs as on 31-03-2001 is to be treated as a Small Scale Industrial Unit.

d) **Micro Small and Medium Enterprises (MSMEs)**: MSME Sector consists of any enterprises, whether proprietorship, Hindu undivided family, association of persons, co-operative society, partnership or undertaking or any other legal entity, by whatever name called, engaged in production of goods pertaining to any industry specified in the first schedule of Industries Development and Regulation Act, 1951 & other enterprises engaged in production and rendering services, subject to limiting factor of investment in plant and machinery and equipment respectively. Micro, Small & Medium Enterprises (MSMEs) form an important and growing segment of Karnataka’s industrial sector. As per the MSME Act 2006, MSME units have been categorized broadly into those engaged in manufacturing and those providing/ rendering services. Under the Act, Micro, Small and Medium Enterprises (MSMEs) are classified as under.
Table 1.1: Definition as per the MSME Act 2006

<table>
<thead>
<tr>
<th>Enterprises</th>
<th>Investment in Plant &amp; Machinery Equipment (Manufacturing)</th>
<th>Investment in Equipment (Service)</th>
<th>Size of Labour</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro</td>
<td>Upto Rs. 25.00 lakhs</td>
<td>Upto Rs. 10.00 lakhs</td>
<td>0-9</td>
</tr>
<tr>
<td>Small</td>
<td>Rs. 25 lakh to Rs. 5.00 crores</td>
<td>Upto Rs. 10 lakh to Rs. 2.00 crores</td>
<td>10-49</td>
</tr>
<tr>
<td>Medium</td>
<td>Above Rs.5 crores to Rs. 10 crores</td>
<td>Above Rs.2 crores to Rs. 5.00 crores</td>
<td>50-249</td>
</tr>
</tbody>
</table>

Source: Government of India, MSME Act, 2006

The small industries have tended to concentrate in the vicinity of large industries or metropolises and big cities. Availability of ready market, social and infrastructural facilities and skilled labour contributed to such development, geographically, though generally present all over the country. SSI are more numerous in the states of Maharashtra, Tamil Nadu, Karnataka, Gujarat, Punjab, UP and West Bengal.

1.4 Statement of the Research Problem

Although Indian Development Banks came into existence after 1947, the term lending industrial institutions and the Industrial Finance Corporation of India (IFCI), in 1948 was established to provide long term and medium term loans to large scale sector. The Industrial Credit and Investment Corporation of India (ICICI) were established in 1955. This was a private sector financial institution, without any contribution to its share capital from the government, and the Reserve Bank etc. Further, the Industrial Development Bank of India (IDBI) was setup in 1964 as an apex agency in the field of development finance by passing a special Act-Industrial Development Bank of India Act, 1964 by the Indian parliament.

The establishment of the IFCI left unsolved the problems of long and medium term capital for small and medium scale industries. Speaking on a motion to refer the IFC Bill to a select committee in the Central Legislature, then Finance Minister stressed the need for institutions to provide assistance to small and medium sized enterprises at the provincial (state) level and pursue the provinces to set up corporations similar to the IFCI to aid small and medium industrial units. Moreover, a
single financial institution cannot be expected to bear the responsibility of meeting the various financial requirements of diversified small-medium scale industrial units.

The State Financial Corporations were considered as the countries regional development banks and mainly intended to be an important instrument of fostering the development of small and medium enterprises, backward areas and encouragement of new entrepreneurs and decentralization of Industrial development.

In pursuance of the provisions of SFCs Act 1951, KSFC was established by the government of Karnataka on the 30th March 1959. The main purpose of establishing KSFC was to provide medium and long term credit to industrial undertakings. The main objective of KSFC is to provide start-up capital for new small and medium-scale industrial units to finance their fixed investment to acquire fixed assets such as land and building and plant and machinery. Thus, the research problem has been selected for investigation into various aspects of growth and progress of SMEs in Karnataka.

1.5 Need for the Present Study

Recently, the emphasis has shifted from large scale to micro, small and medium scale industries. With the increasing pressure of population on agricultural, rural unemployment is also increasing and to reduce unemployment, there is every need to take up micro, small and medium scale enterprises as most effective way of alleviating these problems.

Micro, small and medium enterprises offer opportunities for (a) industrialization with low capital base, (b) balanced regional development, including rural industrialization, and (c) development of entrepreneurial talents in a cross section of persons including weaker sections, with relatively low investments. In the post-liberalisation era, technology and quality assurance have gained prominence along with the need to cater to export markets, and not be contented with catering to the domestic environment alone. Liberalisation has thrown up challenges as well as opportunities. Entrepreneurs need to test their capabilities in the new competitive environment. Acceleration of micro, small and medium enterprises with technological sophistication is necessary for bringing about rapid industrialisation. It is important to
overcome the problems faced by small and medium enterprises, and devise strategies for the future. It is in this direction, the present study with focus on small and medium enterprises has been chosen through coverage of sample enterprises in select industry groups.

Industrial estates have been set up to play an important role in the provision of infrastructure facilities indispensable for the development of small and medium scale industries. A basic problem faced by the district is the increasing pressure of population on land. Therefore to solve the problems of pressure on land and unemployment there is no option, but to take up small and medium scale industries as most effective way of alleviating these problems. In view of the above, area specific studies are needed. There is an urgent need to accelerate the development of small and medium scale industries.

The small and medium enterprises sector plays a vital role in the economy of our country. The various problems of small and medium scale industries viz. finance, marketing, production, technology were undertaken by the researchers only recently. In fact only few studies are there on the problems of small and medium scale industries in India, though small-scale industries are playing an important role in the economic development of the Bangalore Urban district. The problems of small and medium enterprises assisted finance by KSFC are studied through a sample survey conducted in Bangalore Urban district of Karnataka.

1.6 Objectives of the Study

The Role of Karnataka State Financial Corporation in Development of Small and Medium Enterprises in Karnataka a case study of Bangalore Urban District which is referred to as a developed district from the angle of economic and industrial development. The Objectives of the study are as follows:

1. To study the trends and pattern of industries in Karnataka.
2. To assess the Role of Karnataka State Financial Corporation in the development of Small and Medium Enterprises in Karnataka.
3. To evaluate the investment and production of Small and Medium Enterprises in Bangalore urban district.
4. To analyse the profit and employment of Small and Medium Enterprises in the study area.
5. To assess the export performance of Small and Medium Enterprises in the study area.

1.7 Hypotheses of the Study

The hypotheses have been set for investigation in the study based on the above objectives is as follows:

1. KSFC has positive impact on the performance of Small and Medium Enterprises in Karnataka.
2. Fixed capital, working capital and number of persons employed have significant influence on production of SMEs in Bangalore Urban district.
3. Financial assistance by KSFC has a significant influence on profit, employment and production of sample units of SMEs in Bangalore urban district.

1.8 Methodology of the Study

The present study is used a simple random sampling method for selection of SME units for sample survey, in which each and every units of SMEs has an equal opportunity of being selected in the sample. To study the progress, performance and problems faced by the SMEs assisted by Karnataka State Financial Corporation in Bangalore Urban District a detailed questionnaire has been framed of including all related questions. An appropriate research methodology has been adopted for a systematic investigation. The present study covers a sample of working small and medium enterprises registered with District Industries Center (DIC), Bangalore. The period of the study covered is 2001 to 2012 (10 years). The field survey was administered by a structured questionnaire during April to June 2013. The current definitions of manufacturing and service enterprises which are in value from October 2006 have been taken into consideration for selecting the enterprises.

Data Base:

The study has collected the required data from both primary and secondary sources. The secondary data has also been collected from DIC Bangalore and supplemented with the records of industries associations, and Karnataka State
Financial Corporation. The different sources such as journals, government agencies periodical reports, websites and the major resources will be collected from published and unpublished reports from Karnataka State Financial Corporation. Primary data has been collected from selected Small and Medium Enterprises with interviews based on structured questionnaires amenable for computerization, administered among enterprises with focus on entrepreneurial background, progress and performance of the enterprises.

**Study Area:**

Bangalore city is known as ‘Silicon City’ and also the hub of IT sector, industrial growth of the Karnataka state is greatly influences by the Bangalore. The World Economic Forum Classified Bengaluru as the Innovation Cluster. Mercer’s Index ranks Bengaluru as the best place to ‘live and work’ by Expatriates. The District is also slowly becoming a ‘Medical Hub’ due to the presence of World’s largest ‘healing center’ and ‘telemedicine center’. The Small and Medium Enterprises located in Bangalore Urban District have been selected for the study due to high concentration of Industrial Estates and Clusters.

**Sample Design of the study:**

The size of the sample of the present study is 160 Small and Medium enterprises registered with the DIC, Bangalore at end- June 2013 which has been financed by KSFC. The working units were identified product group wise and selection of sample units were made in ten product groups out of the listed by the KSFC and random sampling technique been used to identify the particular unit. These groups are food and agro products, textile products, chemical products, tyre retreading, leather products, and repair and servicing. Manufacturing and service industry related enterprises have been selected.
Sample Design for selection of Industries

Table -1.2: Sample selection from Industrial Estates in Bangalore Urban district

<table>
<thead>
<tr>
<th>Industrial Estate</th>
<th>Manufacturing Industries</th>
<th>Service Industries</th>
<th>Total</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bommasandra</td>
<td>26</td>
<td>6</td>
<td>32</td>
<td>20.00</td>
</tr>
<tr>
<td>Electronic City</td>
<td>26</td>
<td>6</td>
<td>32</td>
<td>20.00</td>
</tr>
<tr>
<td>Jigani</td>
<td>26</td>
<td>6</td>
<td>32</td>
<td>20.00</td>
</tr>
<tr>
<td>Peenya</td>
<td>26</td>
<td>6</td>
<td>32</td>
<td>20.00</td>
</tr>
<tr>
<td>Rajajinagara</td>
<td>26</td>
<td>6</td>
<td>32</td>
<td>20.00</td>
</tr>
<tr>
<td>Total</td>
<td><strong>130</strong></td>
<td><strong>30</strong></td>
<td><strong>160</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>
**Statistical Techniques used in the Study:**

The responses of the enterprises have been analyzed with the help of computerized data process using SPSS package software. Data are tabulated, through frequency distribution for the sample enterprises. The activity wise product groups in respect of broad parameters like fixed capital, gross investment in plant and machinery, output value sales value employment Export, Import and Profit. For other aspects, frequency distribution is utilized for working out the percentages and averages of enterprises. The regression co-efficient have been used to find their significance through t-test, ANOVA and simple and compound growth rates, Simple and Multiple Regression Analysis have been used.

1.9 **Limitations of the Study**

The study is based on both primary and secondary data. The primary data is obtained by survey method; the present study is on Small and Medium Enterprises in Bangalore Urban District of Karnataka. The study covers the KSFC Finance to SMEs in Bangalore Urban District, sanctions, disbursements, recoveries, exports and imports of raw material, value of production capacity, installed capacity, working capital, employment, sales and business, present outstanding loans, taxes, and duties, profits etc. covered in the study.

The present study is carried out at a small and medium level confined to Bangalore Urban District of the state of Karnataka. The conclusions have drawn from the area specific of the SMEs. The study refers to the period from 2008-09 to 2012-13 as the sample small and medium enterprises of which manufacturing and service enterprises have been interviewed. The data collected could only be an approximation to actual facts. The conclusion the emerges from the study cannot be generalized as a whole problems of entrepreneurs.

1.10 **Chapter Scheme**

The present study is organized into seven chapters

1. The first chapter is introduction of SMEs in India and Karnataka, concepts of small and medium enterprises, statement of the problem, research gaps, objectives of the study, hypotheses, methodology, sample design and limitations of the study.
2. The second chapter deals with review of literature of Small and Medium Enterprises. This chapter deals about the reviews related to the present work.

3. The third chapter represents the industrial development in Karnataka – An overview. It deals about the growth, trend of the production and economic indicators of the SMEs.

4. The fourth chapter presents the Role of KSFC in Development of SMEs in Karnataka. It also deals about the paid up capital, sanctions, disbursements, recoveries, income, expenditure and profit of the KSFC. And also emphasis the output, employment, investment of SMEs assisted by KSFC in Karnataka.

5. The fifth chapter narrates brief industrial profile of Bangalore Urban District. It stresses the general characteristics and trends of industrial units of the Bangalore Urban District.

6. The sixth chapter analyses the small and medium enterprises in Karnataka a case study of Bangalore Urban district. It incorporates the summary of the survey data, results and interpretation of the results of the survey.

7. The final chapter deals with the summary, findings, conclusions, suggestions and policy implications.