CHAPTER VII

Summary of Findings and Suggestions
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The small-scale industries have been getting all the possible encouragement and assistance from the Government of India since independence in the country. The small-scale enterprises are generally labour intensive with a short gestation period and create many job opportunities. It was realized that with a low investment per worker, they have a high productivity of capital than large-scale capital intensive enterprises. These industries held in dispersal of industries, rural development and in decentralization of economic power and at the same time acting as outlets for entrepreneurial talents and other skills. However, the small-scale industries cause little ecological problems, stimulate personal savings and in many instances help in developing innovative and appropriate indigenous technology which provides dynamism to the industrial sector.

Thus, looking into the prospects of the small-scale industries, the Governments have been providing all possible support and assistance to these enterprises all over the country since the success of small-scale industries in the industrial sector depends to a great extent on a well-established institutional assistance. In order to meet out various requirements of the rapidly expanding small-scale industrial sector, both Central and State Governments provide adequate institutional support to
the sector. Identification of profitable and feasible projects, preparation of the profiles of such projects, identification of potential entrepreneurs and offering the project profiles to such entrepreneurs are the primary requirements of any programme in this direction. This is followed by the selection of a suitable area for the development and expansion of these areas for the establishment of enterprises, creating infrastructure such as roads, water, power and transport and also offering technical and financial consultancy services, undertaking assistance programmes for the provision of factory sheds/premises, procurement of machinery, moulds, dies, tools, raw material and components, training skilled labour and other skills, availability of adequate and timely finance and marketing aids.

Thus, for the overall development of small-scale sector, a widely diversified organizational structure both at the National and State level was felt and accordingly steps were initiated soon after independence. However, for a systematic development with modern approach a new set of institutions was needed for promotion of these industries. In order to realize the potential benefits from small-scale sector, the institutional arrangements based were implemented with a three-tier system.

The Karnataka State occupied an important place in the industrial sector in the country. The State has made certain progress after the independence of the country and the industrial scene has undergone structural changes in the past few decades. The Karnataka State Small
Industrial Development (KSSIDC) has been striving to bring the Karnataka State on the industrial map of the country.

7.1 FINDINGS OF THE STUDY

The development whether economical, social, industrial, agricultural or aggregate is a complex phenomenon. It is the end result of relations among a host of factors comprising natural endowment, factor inputs, technology, human beings and their institutions. It is significantly effected by the nature and functions of the institutions and the efficacy with which they discharge. Further, development has a close relation with the socio-political pattern of distribution, technical progress, financial and development institutions as well as with the attitudes and behavior of the economic agents. Admittedly, though it is a difficult task to precisely estimate the contribution of the governing factors to the end combined product called development, it may appear that every country or state desires development irrespective of their size and stage.

The functioning and performance of the KSSIDC which is involved in the development process and speedy industrialization has been evaluated by closely examining its major task of establishment of industrial estates and procurement and distribution of raw material. The industrial estates are brought into being to provide all the infrastructure
facilities at one place. At the same time, availability of raw-material is also an important determinant of the industry.

Further, financial performance evaluation is a technique to evaluate the present, past and projected performance of a corporation. The purpose of this evaluation is to evaluate the past performance, financial position, liquidity position, future prospects for earnings, ability to pay interest and debt on maturity and profitability of a corporation.

Thus, the study performance evaluation in order to be useful is object oriented. The overall objective of a corporation is to fulfill all its objectives by bringing the small-scale sector in the fore-front and also earn a satisfactory return constituent with maintaining a sound financial position for its own survival and self-sustained. The performance evaluation is intended to give an accurate picture of the operational efficiency and financial condition of a corporation in a condensed form.

The major findings of the study are:

7.1.1 Establishment of Industrial Estates

An analysis on the establishment of industrial estates in the Karnataka State by the KSSIDC reveals its ability to provide the basic amenities to the small-scale enterprises. The KSSIDC followed the programme of establishing the industrial estate involving construction of industrial sheds of various dimensions and providing them with essential
amenities such as roads, water supply, sewerage, electricity and other facilities.

The KSSIDC set up a record 155 industrial estates in an area of 1012.47 hectares in 20 industrial estates during the last five years in its three zones which have spread all over the Karnataka State. A majority of the industrial estates have been established in the Zone-II covering the cities of Hubli, Gulbarga and Bellary. This states that the North Karnataka has been given preference over other places due to its growing potentiality in the small-scale industrial sector. A total of 72 industrial estates have been set up in this area in 450.11 hectares of land by the end of the year 2002-03. Whereas, 44 industrial estates in 364.93 hectares of land and 39 estates in 197.43 hectares of land have established in Zone-I and Zone-II, respectively, in the same period of time.

Thus, by establishing a large number of industrial estates in the State of Karnataka, the KSSIDC has been able to not only fulfill its objectives of providing all kinds of support to the small-scale enterprise but also encouraged the entrepreneurs to come forward in establishment of small-scale enterprises in the State.

Though the industrial estates are established primarily for providing infrastructural facilities, construction of sheds of various types in the industrial estates is one of the major activities of KSSIDC. The
Corporation has constructed 5700 such sheds for small-scale entrepreneurs all over the State. A majority of such sheds are established in Peenya, Rajajinagar(U) and Hubli industrial areas. For the last five years from 1998-1999 to 2002-03, 2665 sheds have been constructed in Zone-I, followed by 1606 sheds in Zone-II and 1429 sheds in Zone-III. For the convenience of the entrepreneurs, the KSSIDC has constructed and provided the sheds on lease basis, rental basis and on sale deed basis. This indicates the concern of the KSSIDC towards the small-scale sector and also its high efficiency in constructing the required number of sheds during the study period. However, it was also found that a total 347 sheds constructed by the KSSIDC remained vacant by the end of 2002-03 though all the efforts were made by the Corporation to assign the same to the entrepreneurs. This reveals that though all-out efforts are made by the Government and KSSIDC, the entrepreneurs, in certain cases, did not come forward due to the forecast of stiff competition not only in the industry but also from large industries coming forward with the advent of liberalization.

To fulfill the programme of industrial estate in the State, the KSSIDC also established plots required for the small-scale enterprises. The KSSIDC has established a large number of plots in the Karnataka State over the years. To quantify the same, it was found that the Corporation developed 773 plots in Zone-I in 2002-03 compared to 612 plots existed in the year 1998-99. During the same period, 343 new
241 plots have been established in Zone-II area bringing the tally to 2107 plots in 2002-03. This indicates that this area is a way ahead since more and more small-scale industries coming up in the region. Further, 236 more plots were developed in Zone-III area as there were 499 plots in 1998-99 and increased to 735 in 2002-03.

Drawing of power-line to the small-scale enterprises is another area of the mission of the Corporation. A total of 17993 hp power-line has been drawn during the 2002-03 by spending Rs.332.36 lakhs as compared to 10786 hp power-line was drawn incurring Rs.124.33 lakhs in 1992-93. This is one of the basic necessities needed by the small-scale enterprises and KSSIDC served the industries by providing this basic necessity.

Thus, the KSSIDC selected the sites for the industrial estates in all the areas of the Karnataka State. Various factors such as water, power, availability of labour, nearness to big cities, easy availability of land on reasonable rates, good demand for the surrounding area for products, access to the railway and highway, expansion, potentiality, suitable communication system etc. Were also taken due care by the KSSIDC while selecting and establishing the industrial estates in the Karnataka State.
7.1.2 Procurement and Allocation of Industrial Raw-materials

The KSSIDC has taken up supply of raw materials to the small-scale enterprises since the productivity of the industry and its progress is dependent on the regular and continuous availability of raw material. Iron and steel, pig iron, coal, coke, paraffin wax, petroleum products, industrial rubber, industrial lubricants and titanium dioxide are the raw-materials produced and supplied by the Corporation at reasonable prices.

The performance of KSSIDC in connection with overall procurement and distribution of raw-materials during the study period reveals that it has purchased of raw-material to the tune of 139209.06 metric tonnes in the year 2001-02 and procurement was made to the tune of 16274.117 metric tonnes in the year 2002-2003. It is however found that a decreasing trend in the distribution of raw materials in terms of quantity up to 1996-97 was seen and afterwards it has shown a gradual rising trend till 2001-02. Interestingly, a steep decline can be noticed in 2002-03 that is index during this period has decreased 26.12. Similarly, indices for the amount spent for the distribution of raw-materials have shown a fluctuating trend during the study period but 2002-03 indicates very low amount that is 50.60.

The KSSIDC purchased and distributed coal and coke during the study period was not satisfactory in the turnover. The highest purchase
and issue was made amounting to 899131.185 metric tonnes and 899131.185mts in the year 2001-02. Apart from the previous years of purchase and distribution of coal and coke, it was in fluctuating trend. It is also noticed that comparing with iron and steel, paraffin wax, coal and coke was lowest turnover in the Corporation.

7.1.3 Financial Performance Evaluation

Financial performance is evaluated to measure the overall profitability of the Corporation in relation to sales, assets, capital employed and net worth.

The current ratio of the Corporation reveals that ratio is declining year by year regularly which is scattered between 1.86 times in the year 1991-92 to 1.15 times in the year 2001-02. The solvency position of the KSSIDC is not sound which indicates that the performance of the KSSIDC is not healthy from the creditors' point of view.

The quick ratio was satisfactory for first two years, i.e., 1991-92 and 1992-93 to the tune of 1.97 times and 1.50 times respectively. The quick ratio of the KSSIDC was below the standard norm of 1:1 in rest of the 10 years from 1993-94 to 2002-03. It shows that the management of KSSIDC has improper investment policy, which could be improved by utilizing unused cash and bank balances. However, the investment in inventory was less relating to total current assets and the movement of stock was increasing which indicates a better utilisation of inventory.
It is found that the average collection period was fluctuating trend and the KSSIDC has not adopted a liberal credit policy or was not able to collect the debtors promptly. The working capital was financed by borrowing long-term funds and remaining part of funded debt was used in financing fixed assets.

The debt-equity ratio of KSSIDC was decreasing trend during the period under study. Except in the year 1994-95 amounting 126.17 per cent which was the highest among all the years and the lowest ratio was 44.81 per cent in 2000-01. The debt-equity ration indicates a satisfactory position of the KSSIDC provided it has taken the advantage of trading on equity in last 7 years of the study period. The financial leverage ratio of KSSIDC was fluctuating trend during the period under study. The Corporation has heavy investment in inventories, while the return is proportionate to the investment. The rate of capital formation is not sufficient in 5 years in the study period. Although the Corporation was not generating enough revenue to refinance their own development projects. It is found that the return on equity capital employed in KSSIDC was fluctuating trend during the study period.
The analysis of profitability of the KSSIDC clearly points out that the profitability of KSSIDC is not appreciable. There has been an excess of non-operating incomes over non-operating expenses but due to interest charges and income tax payments the net profit margin did not improve. Thus, the analysis of profitability in relation to assets, of course, is discouraging to note since it reveals that the resources of the KSSIDC under study period are not being utilized in a profitable manner except in 1999-00, and 1997-98 to some extent. The KSSIDC did not earn sufficient operating profit during the study period. However, the profitability of the KSSIDC in relation to net worth was satisfactory. The rate of return on net worth is higher than the rate of return on capital employed. This implies that it is providing sound investment leverage.

7.2 SUMMARY OF SUGGESTIONS

The performance of any corporation is not the result of any single factor, but due to an accumulated effect of a large number of small factors, each of which may be small considered separately but whose sum total is highly significant. On the basis of the findings of this research study, the following measures are suggested for the improvement of the performance of the Corporation under study.
7.2.1 Establishment of Industrial Estates

Though the Corporation has established a number industrial estates throughout the state, the success cannot be measured on the number of sheds established. Therefore, the performance of industrial estates should stress not only on quantity but also on the quality and sustenance of such estates. It is also suggested that sufficient planning is to be made before the establishment of industrial estates.

After establishment of industrial estates, a constant review is to be made on the working of the estates in order to see that such estates last longer and stand up to the situation facing competition, if any, in the market.

The entrepreneurs are to be effectively trained and made aware of the newer changes and advancement prevailing in the world so that the estates can be more effectively. Thus, the administrative machinery in each industrial estate must be strengthened.

The conditions of roads, sewerage system etc. in the remote areas of the industrial estates are to be improved by dealing with the local authorities.

The Small Industries Service Institute should expand its common production service through establishing extension centres in all the industrial estates.
With a view to create awareness about the institutional assistance among entrepreneurs and to provide them better services, periodic intensive campaign should be undertaken in each industrial estate.

Since the small-scale enterprises are marching towards sickness, a serious thought is to be given for institutional involvement is to be made with tie-up arrangements with banks and other institutions.

A proper coordination is to be ensured among different agencies in industrial estates by providing assistance in industrial estate extensive training programme basis so that the entrepreneurs are kept updated.

Efforts should also be made for establishing commercial estates nearby the industrial estates where the products of industrial estates could be sold to consumers directly.

More and more subsidies by the State as well as Central Governments are to be provided for the establishment of new enterprises and also for the modernization of the existing units.

The terms and conditions for allotment and transfer of sheds in industrial estates must be simplified so as to avoid any procedural delay.

**7.2.2 Procurement and Distribution of Raw-Materials**

The industries selected for the establishment in estates must be based on the availability of local raw materials, labour intensive and with the requirement of common facilities.
As most of the industrial estates are facing power shortage problems, efforts should be made to solve this problem. The Government may also consider subsidizing the power rates to the extent of power cuts effected in some of the areas.

The depots concerned must anticipate the requirement of essential source and imported raw material in advance and make arrangements to supply them in adequate quantity. At the same time, prices of the raw materials are to be kept at affordable ones.

The estates are to be trained to such an extent that more and more local and natural resources can be utilized as raw materials wherever required.

Large and medium scale enterprises can explore the possibilities to buy their raw materials and components from the enterprise-based in industrial estates.

7.2.3. Financial Performance of the Corporation

A definite finance function is to be framed in the Organization since it is sound from the financial management point of view. In this regard, the finance manager holding the key position in the financial management should be given adequate role. A clear policy formulation in the area of financial management is very essential.

There is a need for mobilization of internal and external sources. The kind of external dependence the Corporation has is not desirable.
More and more internal sources should be generated by improving the performance. The solvency position of the Corporation is also questionable and the capital structure is not on the sound side. It is also not desirable to adopt a policy of employing more borrowed funds as compared to owned funds as interest charges made the net profits decrease.

Capital structure of the Corporation is to be restructured by successfully blending different sources of funds employed in the capital structure of the Corporation.

A high average collection period always affects the working capital requirements and makes a negative impact on the return on investment. A debt collection programme should aim at timely collection of receivables resorting to taking early action on the same.

A high operating efficiency on the basis of operating ratio of the Corporation emphasizes that the total operating expenses absorb the sales income. Therefore, cost control measures are to be undertaken and steps to augment earnings by better operations are to be evolved immediately.

7.2.4 Human Resource Management

Human resources in a corporation always make vital contribution to the productivity and efficiency. The Corporation should prepare clear guidelines on the human resource management covering all the
important aspects like manpower planning, recruitment and selection, compensation, training and programme, motivation and evaluation.

The Corporation should design labour welfare programmes including scientific recruitment and training of managerial cadres and new orientation.

Housing facilities, subsidized supply of food-grains, hospital, school, scholarships for the children of workers, library sports and other recreational facilities are to extended in a phased manner looking into to the financial position of the Corporation.

Thus, the KSSIDC plays a catalyst role in the positive transformation of rural India into the regions of progress and prosperity is possible when the Corporation adheres to the aforementioned suggestions. These suggestions, if properly implemented, the small-scale sector again would come forward and overcome the new challenges before the sector. There is a need for the Corporation to tone-up the efficiency and effectiveness of all facets of its own management and management of small-scale units, which are taken care of by the Corporation by providing all the infrastructure facilities.