CHAPTER - 6

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6.1 INTRODUCTION

This study is based upon the data and evidence collected from 100 small manufacturing firms in Coimbatore and is concerned with the exploration of various factors of survival and growth objectives leading to the organisational effectiveness of the small units. The research design comprises of the examination of effectiveness in terms of its quantitative and formal features and in terms of its association to the number of factors influencing it.

6.2 METHOD OF STUDY

Information related to the origin of the firms, various functional areas of the organisation and the factors of various operations influencing effectiveness was collected through the lengthy questionnaire and through detailed discussion with 100 small entrepreneurs.

Before analysing the impact of the collected factors on effectiveness of the firms, we had to arrive at the number of effective and non-effective firms among the sample. It was decided to compute an SGP index based on 3 factors viz. Gross sales of the firm, Total assets and Net Profit of the 100
units for a period of 10 years (ie) from 1983 to 1992. As the aim of the study was to examine the extent of relationship of the factors influencing the effectiveness of the firms, comparison was made of frequencies of effective and non-effective units identified in relation to each of the aspects. Hence, after correlating the 3 above said values if the value of the regression co-efficient of the firms was greater than the mean of the total sample, it was taken as the indication of an effective firm. This part of the analysis was done using a computer programming designed for the purpose.

6.3 FRAME WORK OF THE CHAPTERS

The report comprises of six chapters. The first chapter is an introduction to the study. The second chapter discusses about the industrial and economic profile of Coimbatore city. The third chapter presents the objectives, research design and the methodological framework of the project study. The fourth chapter deals with the review of literature on organisational effectiveness and also with the review to the approach of the dynamics of growth leading to organisational effectiveness of small firms. The fifth chapter portrays the analysis of the factors influencing the survival and growth objectives leading to organisational effectiveness. The sixth chapter concludes and summarises the entire findings of the study. Also the second part of this chapter gives directions for further research studies.
6.4 FACTORS INFLUENCING GROWTH AND EFFECTIVENESS: FINDINGS

Proprietorship and partnership forms of ownership covered the higher percentage in the sample of effective units; the non-effective firms also were more than effective firms. Forms of ownership is found to be independent of the effectiveness of the firms, according to the study.

Interest of the entrepreneurs for starting the enterprise varied among them. Feeling of independence, discontent with the previous employment and one's own ambition were the three most frequent reasons. Ambition to become the entrepreneurs of small scale was entirely different ambition to become entrepreneur of large scale sectors.

Founders of the majority of the units were in the age group of 31-40 both in effective as well as in non-effective firms. It is concluded that the age of the entrepreneur is independent of his firm's effectiveness.

The owners of the sample firms came from various family backgrounds namely farming, trading, working class industry, profession and service. Such family background is found to be independent of the organisational effectiveness and growth.
In the distribution of owners in regard to their educational background, the education of the owners of the effective firms belong to the category of matric, non-matric and trade certificate courses. More coverage was found in the same categories in the non-effective firms. Educational status of firm owners is independent of the effectiveness of the firm.

Experience of the entrepreneurs of the small firms studied includes experience in farming, own industry, traded business, government and private sector, other professionals, persons without prior employment and relevant experience from own industry. The experience is negatively correlated with growth. Experience is independent of the firm's effectiveness.

The entrepreneurs were guided for the initial selection of product. Such factors include: suggestion from friends and relatives, familiarity, assurance of large industries, market opportunity, guidance from governmental agencies, freedom from risk; only one fourth of the founders selected their products under rational basis; product changes have taken place only in one fifth of the sample sectors. Such static situation led to the decline of the sales performance.
Limitations of capital, experience in related line, arbitrary decisions, avoidance of risk are, some of the major factors that influenced the starting size of the firm. The first two factors were being most frequently mentioned (70% and 44%). Arbitrary decision-making, resource limitation and initiative behaviour mostly decide the choice of the initial size. Similarly, the place of birth, availability of labour, infrastructural facilities are some of the essential factors that influenced the selection of location for the unit.

Own savings and the borrowing from the financial institutions were reported as the major sources of the initial financing of the small sectors (90% and 27% respectively). Borrowings from friends and relatives was recorded as the third major source of financing. It is observed that considerably a higher percentage of the firm owners of the effective firms borrowed from financial institutions for initial capital. Lack of security and availability of proper advice availability were two major drawbacks in this regard.

Firms in the initial stages suffered because of liquidity pressures; 90% of the firms obtained overdraft facilities from the commercial banks; OD facilities have been on the increase in the effective firms comparing with the non-effective sectors. It was observed that the primary sources of profit were from the owners from proprietor’s own capital and also from Tamil Nadu Industrial Investment Corporation funds.
Financial factors have strong positive relationship with the growth. 75% of the respondents felt that they found finance as an essential one determining the growth and effectiveness of the firm. Inadequacy of finance seem to restrict the growth of many firms reporting serious financing problems.

Most of the firms have not maintained proper accounting procedures for monitoring performance and progress for planning and decision-making. Only 13% are following formal budgeting procedures. 32% of the firms are following sales and demand forecasting formally and informally and 9% capital budgeting. Using of costing techniques was non-existent. Accounting practices have negative relationship with the effectiveness in small firms. Their thumb rule methods served their purposes in maximum extent. It also seems highly probable that small firms could achieve much greater success and efficiency, by utilising accounting records for effective planning.

Subject to differences between different industrial classes, there was some correlation between turnover and change in investments. These does not appear to be any direct correlation between the employment growth and turnover.
Marketing area for small units ranged from local to international markets. The successful marketing of SSI units is dependant upon nature of the product and to some extent size of the firm. 45% of the firms were export-oriented and exporting more than half of their products manufactured. Selecting dealers and setting-up branches seemed to have decisive influence on sales growth.

Various pricing methods were used by the firms. These include: cost-plus pricing (58%), comparative pricing (15%) and others (27%). Costing methods used were intuitive and arbitrary. Effective units fixed their price methods according to market conditions.

Span of control is narrower among effective units than among non-effective one. There was no positive correlation between the span of control and effectiveness of the small firms. Supervisory needs may vary from small scale to large scale firms. Small scale management ability varied widely. On an average, the work week of the small entrepreneur comes to 56 hours which has no correlation with the effectiveness noticed. Entrepreneurs tended to be members of industry association and clubs; however, the extension of membership had no correlation to growth.
It was found that 30.7% of the sample firms were engaged in R & D especially for improving their existing products and demand analysis while comparing effective firms with and non-effective firms, it may be ascertained that research has more influence on growth and effectiveness. It also shows the quality and attitudes of the management.

As far as the diversification and related activities are concerned, product range widening was done by about 33% of the units followed by product diversification. But primary consideration was for process innovation. It was recorded by 38% of the firms. Financial constraints and product knowledge were found to be the major factors deciding the diversification needs. Sales growth was found to be positively correlated with diversification.

Organisational structure in small firms was very simple and centralised. In those units which crossed more than 3 million turnover had separate functional units.

The problems arising from markets and the distance of raw materials are affecting Coimbatore small firms. Government's assurance in getting raw materials under quota basis is more helpful for the small firms.
Increasing industrialisation in Coimbatore is a major advantage for jobbing and ancillary firms. Transport costs were felt high for small scale sectors. Initiative behaviour among the entrepreneurs causes severe competition in this district. Most of the firms are maintaining their performance by following different strategies such as good quality, consumer demand, prompt delivery and good after sales service. Starting foundry units in Coimbatore is easy because of its simple technology and available skilled manpower. Entrepreneurs tend to set up initiative ventures to minimise risks and none of the small units hold patents.

More than 60% of the units are advertising their products. Advertising took different forms like through T.V., newspapers, mailing of catalogues dealer promotions, through exhibitions, etc. About 78% of the units are incurring expenditure on advertisement below 1% of sales.

A few large units do intensive advertising and this effort is depending on the products and class of industry. Newspaper advertising was more correlated with growth than with other forms of advertising.

Perennial power cuts have affected the performance of the units in Coimbatore by increasing production costs. Many small entrepreneurs regard unions as hindering growth; this is not supported by the rates of growth of unionised and
non-unionised firms. The experiences of many firms suggest that labour union problems are just one set of the operational problems of management to be dealt with as such. There is much labour-turnover among small firms because of low wages.

50% of the firms reported that the system of taxation both excise duty and income tax had retarded their growth and effectiveness. The ceilings of turnover for the exemption of excise duties made most of the owners split their whole unit into various fictitious units which have hindered the growth and effectiveness of the firms. According to the majority of the owners income tax rates were too high, investment allowances were insufficient and the depreciation provisions were inadequate.

Many sources of uncertainties for effective atmosphere of the business were identified by giving weightage to the various factors mentioned by them. According to them, the factors of uncertainties were shortage of working capital, services provided by government (power and raw materials) marketing, economic and financial policies, labour relations and others.

These factors are not significantly affecting the firm. It may be rectified by high adaptability of the management with change. Hence, the managerial effectiveness is the vital motivating factor underlying growth and performance.
Information system should be designed according to the size of the firm to facilitate the planning and decision-making process of the firm. So far as the small entrepreneur is concerned, success calls for a constant search for ways of improvement, receptiveness to change and determination to achieve growth and effectiveness of the organisation.

6.5 CONCLUSION

The general conclusion that emerges from the findings of this investigation is that it is the quality of management and commitment which hold the key to the firm's effectiveness and growth. Performance and effectiveness are the results of determined effort, different types of managerial skills and effectiveness. Hence, there is a need for good managerial training, need-based organisational development efforts, and to make greater use of consultancy services. To obtain the above, an information network at the national level in different industrial classes is to be planned; to start with it may be planned to set up in the industrial estates initially as a pilot effort.

Present government support system is more beneficial to the newly emerging firms rather than existing ones. Government's efforts in rehabilitating the sick units may be reoriented and reviewed. Government has to take measures to
encourage innovation and product development in the Coimbatore based small scale units which are at present more imitative in nature.

6.6 SCOPE FOR FURTHER RESEARCH

Present study has given some insights and generalisation on the factors influencing the survival and growth objective leading to organisational effectiveness of 100 small units in Coimbatore district. The governmental agencies have done some efforts in number of areas such as Economic Investigation through DIC, Institutional financing, service-oriented efforts through small industries service institute, etc. How much did these schemes benefit the units and what are the pitfalls in the present system? Answer to these questions may only through an effective evaluation system.

An exclusive research should be concentrated on the requirements of National Information Network to facilitate the decision roles of the owner-managers. As Coimbatore has had more initiative in its products, a government wing should exclusively do the research to explore the opportunities for the introduction of new products and the impact of new industrial policies on new product development.
Above all academic researches on OD and other applied behavioural researches should enter into the area of small organisations with the limited complexities so that a solution for utilising the resources in an optimum manner would be possible. At the outset, scope for doing studies in multi-disciplinary approach is the need of the hour.
BASIC METALS & ALLOYS
Weighted Avg. SGP Index

SGP Index

Unit Number