CHAPTER VII

SUMMARY OF FINDINGS AND SUGGESTIONS

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CHAPTER I

INTRODUCTION AND DESIGN OF THE STUDY

1.1 Introduction
The small-scale industrial (SSI) sector has acquired a prominent place in the socio-economic development of India. Small-scale industries are small in term but play a significant role in the Indian economy. It is acknowledged by the government that, alongside agriculture, small-scale industry is an important segment of the Indian economy. Small-scale industries contribute significantly to generation of employment, dispersal of industrial activity to rural and backward areas, ushering in all round economic growth by value addition, ensuring the mobilization of local capital and developing entrepreneurial skills.

The overall credit of development of this sector goes primarily to the vision of Sri. Jawaharlal Nehru, the first Prime Minister of free India, who proposed and implemented the development of core industry and a supporting sector in the form of small-scale enterprises. In the words of the present Indian Prime Minister Dr. Manmohan Singh, “The key to our success in employment lies in the success of manufacturing in the small scale sector”\(^1\). The small-scale sector is important not only for its substantial contribution to the GDP but also for its stellar performance in exports and generating employment.

The small-scale industry is widely recognized as a powerful instrument for socio-economic growth and balanced sectorial development. The SSIs sector has emerged as a vibrant and dynamic sector and an engine of growth in the present millennium. One of the distinctive characteristics of small-scale sector is that, the development of these industries would create broader employment opportunities assist in entrepreneurship and skills development, and ensure better use of scarce financial resources and appropriate technology thereby reducing regional imbalance assuring more equitable distribution of national income and wealth. Further more, they can play a main role in achievement of national economic socio-political objectives. The growth rate recorded by the SSIs sector has normally been higher than that of an industrial sector as a whole.

The SSIs units are supplementary and complementary to large and medium scale units as ancillary units. Considering the large employment level and backlog of creation of new jobs to provide employment to all able hands today, hopes are pined on the small-scale sector. The government is making all efforts to provide conducive

atmosphere, level playing ground and policy support to enable the SSIs sector to achieve higher levels of production, exports and employment. At present this sector accounts for 95 per cent of industrial units in the country, 40 per cent of value addition in the manufacturing sector, 65 per cent of services and more than 35 per cent of the countries total exports and nearly 80 per cent of industrial employment in Indian economy. The development in SSIs sector in India is to become an emerging force in the international markets. Small-scale industries are small in term but they play a significant role in the Indian economy, socio economic growth and balanced sectorial development in the country. As of 2008-09, there were 285.16 lakh SSI units functioning in India and it provided employment opportunity to 659.35 lakh persons.

In spite of the thrust accorded through the administrative machinery of the government and financial assistance extended by financial institutions and commercial banks, the growth of the SSIs sector has been much below the expected level. At the end of the Tenth Plan, (March 2007), the small-scale industries produced goods worth Rs. 790759 crore against the target of Rs. 880805 crores. They exported goods valued at Rs. 202017 crore against the Tenth Plan target of Rs.233079 crores. Though the SSIs sector contributed significantly to the economy of the country, it has not emerged as an engine of exponential growth and rapid economic transformation of the semi-urban, rural and backward areas. The liberalization and reform process initiated in India since, 1991 has enlarged the problem areas of the SSIs sector. While notable advances were

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made in exports and use of high technologies the general state of many small units continues to be critical.

**Industry and Bank Finance**

It is a well-known fact that finance is the life-blood of any sort of business, trade, commerce or industry. Any enterprise engaged in industrial production realizes a great need of finance according to their form, size and capacity. In a small-scale industry finance is always considered to be a major constraint due to its limited sources and that too with difficult procedures. It is a hard fact that finance is lacking in the small-scale sector. There is also an acute shortage of credit available in this sector.

Financing a business may take any of the traditional or new innovative forms. For small-scale industries, forms of financing are own funds, loans and venture capital funds. To procure this, small entrepreneurs have to approach either the organized sector such as banks and financial institution or the unorganized sector such as money lenders, friends, relatives, and the like. Among these sources banks play a significant role in financing small-scale industries.

The role of commercial banks in the process of economic development is well recognized. The year 1969 was a major turning point in Indian financial systems when 14 major banks were nationalized. Thereafter there was re-orientation of credit flows,

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so as to benefit the till then neglected sectors such as agriculture, small-scale industries
and small borrowers. The Government has constituted several committees from time to
time to improve the credit delivery system of commercial banks towards SSIs.
Accordingly, at present SSIs have been recognized as a priority sector by commercial
banks and they lend liberally to SSIs units.

1.2 Statement of the Problem

Finance is a key input of production, distribution and development of
any business organization. It is therefore, aptly described as the “life-
blood” of industry and is a pre-requisite for accelerating the process of
industrial development. The processes involved in setting up an industrial
unit like providing the infrastructure, placing advertisements, marketing
the product and the like are based on free flow of funds and a sound
financial position. Finance assumes great importance because the non-
availability of timely or adequate finance acts as a restraining factor.

During the pre-independence period, financial constraints had
hampered the rapid development of industries in India. After
independence, the government has built up a network of specialized
financial institutions with a fairly big capital base to provide financial
assistance to all types to industries, including the small-scale industries.

A multi-agency credit structure, to fulfill the various types of
financial needs of the units in the SSIs sector, has been evolved in the
country over the years. The Reserve Bank of India as the central monetary
authority of the country has been instrumental in ensuring availability of
credit to the SSIs sector.

Different national and state level institutions operating in the country
for meeting the credit requirements of the SSIs sector include Small
Industries Development Bank of India, Commercial Banks, Regional Rural
Banks, Co-operative Banks (State, Central and Primary), State Financial
Corporations/ State Industrial Investment Corporations, State Small
Industries Development Corporation, National Bank for Agriculture and
Rural Development, statutory bodies (KVIC, COIR Board, Handloom
Board and Handicraft Boards), National Small Industries Corporations
Limited and the like.

To facilitate a higher flow of credit from institutional sources to the
preferred sector including the SSIs, nationalization of major private sector
banks was done in two phases in 1969 and in 1980. Besides providing short-
term assistance, commercial banks support small enterprises by extending
term loans and by financing the government sponsored schemes. In the
Indian banking system, the SSIs enjoy the status of a priority sector in
seeking financial assistance and borrowers belonging to this category have
the benefit of availing loans on favorable terms. However, with the onset of
banking sector reforms and as a part of deregulation of interest rates, the
availability of credit has been linked to the rates of interest as determined
by market forces.

A growing economy needs the support of a financial structure which
is responsive to the needs of development. In India, in the process of
financial deepening, commercial banks have to shoulder special
responsibilities for meeting the financial needs of diverse sectors of the
economy, including SSIs sector at various stages of development. In the
process, they have evolved various modes and instruments of financing,
fashioned various organizational innovations, moved away from traditional
commercial banking and evolved into development banks, responsive to
socio-economic needs. The SSIs have to depend primarily on bank credit
commercial banks with their vast net work of branches have naturally
emerged an important alternative institutional source of financing.

In Theni district there are several financial institutions and
commercial banks which provide all sorts of financial assistance to the SSI
units. Of these the State Bank of India, a leading government owned bank
is playing a predominant role. Hence the present study, “Bank Credit to
Small-Scale Industries in Theni District– A study with reference to State
Bank of India”.

1.3 Review of Literature

This chapter presents the review of literature of the past and current research
studies on the subject and the concepts used in the present study. Though a large volume
of literature is available on the subject of small-scale industries, only a few important
studies have been reviewed here. Such a review would facilitate the researcher to have
a comprehensive knowledge of the concepts used in the earlier studies and would enable
the researcher to adopt, modify and formulate an improved conceptual framework for
the use of the present study with a view to drawing meaningful and useful inferences.
Mishra (1968)\textsuperscript{5} in his study in Saugar district found that industrialists preferred a bania that is a private money lender to a co-operative bank for meeting their financial needs in order to avoid the complicated formalities, cumbersome procedures and undue delay in getting loans from banks.

The survey conducted by the Central Small Industries Organization (1969),\textsuperscript{6} which was set up by the administrative reforms commission revealed that on an average only 20 per cent of the credit needs of the small industries were met through institutional sources.

Inderjit Singh and Gupta (1971)\textsuperscript{7} in their book on “Financing of small industry” also pointed out the inadequacy of institutional credit. They concluded that only 5.1 per cent of the borrowers were financed by institutional finance.

Kopardekar (1974)\textsuperscript{8} attributes excess capacity remaining unutilized in small firms was due to the lack of adequate finance. The lack of adequate finance especially in meeting working capital requirement leads to inefficient utilization of the installed capacity, which in

\textsuperscript{5} Mishra J.N., Small-Scale and Cottage Industry in Saugar District, Singhai Mojilal and Sons, Jabalpur, 1968, p.25.


\textsuperscript{7} Inderjit Singh and N.S. Gupta, Financing of Small Industry, S.Chand & Co Ltd; New Delhi, 1971, p.66.

\textsuperscript{8} Kopardekar D, Financing of Working Capital in Small-Scale Industries, S.Chand & Co. Ltd. New Delhi, 1974, p.84.
turn leads to inconsistent operation of the units. Many units are not in a position to apportion funds to fixed and working capitals. Nag (1978),\(^9\) in his study “Growth of the Small-Scale Sector: An Assessment”, reviewed the functioning of the small-scale sector, and brought to light the growing mortality of the small-scale industries. He urged the public sector to rescue the small-scale sector in the large interests of the many skilled and unskilled people employed in these various small enterprises. A great responsibility for the public sector in the form of direct participation in entrepreneurial activities was found to be very essential for ensuring the balanced growth of the industry in the future.

Moorthy, (1980)\(^{10}\) focused his attention on the financing of the small-scale industries in the rayalaseema region of Andhra Pradesh. His emphasis was on the role of the government agencies, financial institutions and the commercial banks in augmenting adequate finance for the small-scale sector.

Vasudevan (1981)\(^{11}\) in his study entitled “effectiveness of District Industries Centre in Tamil Nadu” suggested that there should be a

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purposeful interaction between industry and research institutes. He favored the spread of small units in the backward areas, equitable distribution of raw materials, dispersal of income through social welfare and the like. He also mentioned two alternative measures a) adequate staff supports in office and at field level to take care of development work b) reconsideration of working hours of the District Industries Centre.

Advani (1981)\(^\text{12}\) analysed the growth of the small-scale industries during the period 1972-1979 with reference to the growth in the number of units, fixed capital, employment, output and the total value added. The study covered all the states as well as the union territories. Based on his micro analysis, he concluded that for the economy as a whole, the figures were highly impressive. According to the report of the Reserve Bank of India, the total number of sick units in 1979 was found to be 20700. In Kerala, 66 per cent of the units were reported sick. In Bihar it was 55 per cent, in West Bengal it was 50 per cent, in Andhra Pradesh it was 30 per cent and in Uttar Pradesh it was 27 per cent. These states exhibited a very high level of incidence of sickness among the small industries. The entrepreneurs in Chennai found faulty planning

and inadequate assistance as the major reasons for the growing sickness among the small industries. They blamed the government agencies for their lack of response, to the main problems of the small-scale industries.

Rajula Devi (1983)\textsuperscript{13} in her article entitled “Small Enterprises for Rural Industrialization Programme and Perspective” found that the problems encountered by the small enterprises were becoming increasingly complex, and the small entrepreneurs were often baffled by a maze of regulatory measures. The woes of the entrepreneurs stem from lack of clear policy perspective. A common view shared by the entrepreneurs and those who were promoters of the growth of small-scale sector was that as long as there was no change in the attitude of policy makers the problems would remain unsolved.

Vivek Deolankar (1983)\textsuperscript{14} in his article entitled “Role of Small-Scale Industries in India”, observed that the definition given to the SSIs was not merely a matter of statistical classification but also an important ingredient because an industry depending on its size became eligible for obtaining certain incentives. For different kinds of incentives


different kinds of definitions had been adopted. This has led to the conceptual frame-work being rendered more complex as various definitions of a small-scale industry were based on different criteria. This was obviously due to the fact that the concept of a small industry was not an absolute concept. According to him, it was a relative concept and had to be understood in the context of the stage of economic development attained and political and social environment existing in a particular country.

Chaudhary (1986), in his article entitled “Success in Urban Small Entrepreneurship”, pointed out that creation of political awareness among the present day entrepreneurs was desirable, though not essential. This would help to carry out their entrepreneurial activity successfully since business and politics had inter-acting relationship.

Sharma and Tomar (1987) in their article entitled “Problems of Small-Scale Industries in India”, stated that the pattern of the functioning of the District Industries Centers (DICs) had been far from satisfactory. The DICs were established throughout the country for providing assistance to small entrepreneurs

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under one roof. The DICs which then numbered 395 covered 408 districts out of 415 districts in the country. In reality the DICs were yet to serve as a catalyst for the industrial development in the districts where they operated. There was no co-ordination between them and other agencies. According to them the DICs had not produced benefits commensurate with the expenditure involved.

Kanakavel Pandian (1988)\textsuperscript{17} in his study “Prospects and Problems of District Industries Centre in Tamil Nadu”, pointed out that the performance of the DIC was affected by policy decisions. He stated that the subsidies for electricity consumption should be hiked upto fifty per cent. He also explained the socio-economic development through the District Industries Centre.

Natarajan (1988),\textsuperscript{18} in his study entitled, “A Study of Utilization of Incentives by Small-Scale Industrial Units in Madurai District”, measured the extent of utilization of incentives by small-scale industrial units in Madurai district. The study also highlighted the factors influencing the utilization and the impact of incentives on the industrial units.

\textsuperscript{17} Kanakavel Pandian P., Prospects and Problems of District Industries Centre in Tamil Nadu, Unpublished M.B.A, Dissertation Submitted to the Madurai Kamaraj University, 1988, pp.41-45.

Dikshit (1988), in his article, State Bank of India has been responsive to the development needs of the small-scale industries and has, over the years, not only assisted the small-scale industries financially but has also evolved suitable schemes to assist them, after studying their problems. It has played a pioneering role in setting up an equity fund, for assisting new entrepreneurs. The bank's contribution to the small-scale industries sector far surpasses its conventional role as a commercial bank and is more in line with its responsibilities as a premier national institution in the field of banking, functioning as a major instrument of national development in respect of the various important sectors of the economy.

Manohar U Deshpande (1990), in his work entitled, “Entrepreneurship of Small-Scale Industries”, analyzed 90 selected units located in the industrial centers of Marathwada regions. His study gave an insight into the problems associated with the emergence of entrepreneurship and its functioning. He evaluated the socio-economic backgrounds of the entrepreneurs, their role at the different stages of development of an industrial unit, the

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difficulties faced by them in promoting their units and their performance. Shetty (1990),\textsuperscript{21} in his article entitled “District Industries Centers Programme - An Appraisal”, argued that the district industries centers were not manned fully as per the restructuring norms. Only a few states had been able to appoint project managers. Further, he opined that the linkage with other technical and specialized agencies had not been developed to the extent needed. Therefore he suggested that the DIC should be manned by fully competent and professionally qualified personnel with full supporting staff and facilities.

Subbiah (1990),\textsuperscript{22} in his study “Financing of Small-Scale Industries by State Bank of India – A study with special reference to Sattur Branch” stated that there was delay in the sanctioning of loan and subsidy to small-scale units. The Bank branch could not achieve its target of disbursement of loans to small-scale units due to non-materialization of some new proposals. Match factories were not fully utilizing the cash credit limit sanctioned to them.


\textsuperscript{22} Subbiah A., Financing of Small-Scale Industries By State Bank of India – A Study with Special Reference to Sattur Branch, M.phil, Unpublished Dissertation Submitted to Madurai Kamaraj University, 1990.
Sen Gupta (1991), found that the definition of women enterprises has been simplified and the stipulation regarding employment of majority of women workers has been dispensed with investment limit of ancillary units and export-oriented units raised to Rs. 7.5 million and for SSIs units Rs. 6 million. The Small Industries Development Organization (SIDO) has been recognized as the nodal agency to support the SSIs in export promotion.

Jayakodi (1992), in his study entitled “A Study of Small-Scale Industrial Units in Trichy District” analysed the growth of different types of small-scale industrial units in Trichy district. He has highlighted the factors that contributed to the growth and those that retarded the growth of small-scale industrial units.

Altat Khan (1993), in his paper Industrial Sickness and Revitalization Through Banks” mentioned that the banks and financial institutions which are extending loan assistance were to be held responsible equally for the sickness of the SSI units, for the want of proper analysis of very optimistic sale projections, for the laxity of control for the

diversion of funds, for the ineffective credit supervision, permitting delays in submission of statements, returns and financial statements and inadequate credit assistance.

Ramasamy (1994),\textsuperscript{26} in his article entitled "Small-Scale Manufacturing Industries—Some aspects of Size, Growth and Structure" found that the structure of the SSI sector had not undergone any substantial change over the period 1972 to 1988. He pointed out that the primary materials and agro-based industries namely food products, beverages and tobacco products, wood, leather, paper products and hosiery and garments had shown a tendency to improve their employment and value-added shares relating to metal-based industries. Their better economic performance perhaps was largely due to the industry’s specific characteristics rather than to Government protection. He substantiated his arguments by focusing on metal-based industry which had a larger share of reserved products. He concluded that the characteristics were more important determinants than any other thing for the growth of small-scale enterprises.

Nanjundan (1994),\textsuperscript{27} in his article, “Changing Role of Small Scale Industry-International Influence, Country Experiences and Lessons for India”, found that the research and development in many countries tend more and more to be carried out in public research institutes, universities and the like and there is a need to provide for linkage and transfer mechanisms to small enterprises. He also pointed out that the trends towards closer and greater relationship between large enterprises and small enterprises were likely to be strengthened. He suggested that a programme may be formulated to encourage independence of small sub-contractors and to minimize the exploitation by eliminating unfavorable rates of payments, delayed payments and the like.

Upaulthus Selvaraj (1994),\textsuperscript{28} in his article entitled, “Financial Incentives and Small Industrial Units in Madurai District - A Survey”, found that the entrepreneurs of small industrial units had enough knowledge of the existence of long-term financial incentives, short-term financial incentives and subsidy assistance.

As to the availing of financial assistance,


nearly 70 per cent of the small-scale units had made use of both the long-term and the short-term financial incentives. He stated that the deplorable feature was found in the availing of subsidy assistance. It was found that only 15 per cent of SSIs units had availed such assistance. The industry-wise analysis laid bare that chemical industrial units followed by engineering and textile units availed long-term finance to a greater extent. Engineering units availed short-term financial assistance to a greater extent followed by the textile units in Madurai district.

A study undertaken by the National Institute of Banking Management (1995)\textsuperscript{29} titled “SSI units Receiving Adequate Institutional Credit”, aimed to identify the credit related problems faced by the SSIs units. The findings of this study are the inadequacy of credit limits sanctioned, increased in interest rate, banks insistence on adequate security including collateral, and delay in sanctioning or disbursements of loans.

Thilaka (1996)\textsuperscript{30} in her study “A Study of Financing of Select Small-Scale Industries by Commercial Banks in Tamil Nadu”, stated that one of the important problems of the small-

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{29} National Institute of Bank Managements, “Are our SSI Unit Receiving Adequate Institutional Credit”, \textit{Productivity}, Vol. 36; April-June, 1995.
\end{itemize}
\end{footnotesize}
scale industries was bank finance. Restriction on term on loan facilities small-scale industries acted as a stumbling block in the promotion of SSIs units. She stated that commercial banks provided only 75 per cent of the financial needs of the small-scale industrial units. Further the borrowers complained that they had to visit the bank more than ten times for getting their loans.

Ram K. Vepa (1997)\(^{31}\) in his article “Small can be Beautiful–Recommendations on Small-Enterprises”, observed that the Abid Hussain Expert Committee on Small Enterprises has made significant recommendations towards making the sector more viable but without adequately outlining the administrative and financial support which would be required to implement them. In Vepa’s words, it looked doubtful whether the report would receive any serious consideration especially when it’s other major recommendations relating to the scrapping of the policy of reservation was politically sensitive.

Choudhuri (1998)\(^{32}\) in his study entitled “Capital Structure Planning in Small-Scale Industries”, stated that the recent years had witnessed a democratic expansion of the small

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business sector in almost all parts of the world. A greater degree of awareness to produce goods and services confirming to national and international standards would be created among the SSIs units. He also observed that the finance was the crucial problem for the survival of SSIs sector. He suggested that adequate institutional credit to SSI should be made available on priority basis. Prompt processing of working capital applications and extension of overdraft facilities were the other recommendations made by him.

George Verghese (1998)\textsuperscript{33} in his paper “Leading Issues in Credit flow to SSIs Sector is Finance for Small Enterprise in India” stated that focus on the limited impact of polices on the SSIs sector in India was mainly due to the isolated treatment accorded to the SSIs sector, the SSIs sector needs a renewed thrust enhancing credit flow by drastically improving the problem areas of administration personal, entrepreneurial development and infrastructure in dispensation of credit.

Mali (1998)\textsuperscript{34} in his paper “Development of Micro Small and Medium Enterprises in India: Current Scenario and Challenges”, stressed


the need to bring about attitudinal change among the officers of banks and financial institutions for improving the credit flow to the small and medium enterprises and micro enterprises.

Robin Mukherjee et al, (1999)\textsuperscript{35} in their article entitled, “Small-Scale Industries in West Bengal, Data Analysis for Study of Growth”, estimated the semi-log trends for analyzing the growth of SSIs units in the various districts of West Bengal State. They observed a considerable inter district variations in growth rates. They attempted to examine the inter-temporal district-wise variation in the absolute number of newly registered units and in their employment. “No clear trend in the inter district disparity in this respect is noticeable” they concluded.

Hina Sidhu (1999),\textsuperscript{36} in her study entitled “Application of Verdoon’s Law to the Small-Scale Sector in India”, stated that the present process of restructuring Indian economy through liberalization and decontrols had put the enterprises at a critical juncture. Therefore, she opined that in any change in policy related to small-scale industries, there


was a need to evaluate the various aspects related to the productivity of small enterprises. As factor-productivity was critical for the survival of units, she suggested that the Verdoon’s Law could be used as a measure to test the overall performance of the industrial sector.

Vickram Chadha (1999), in his article entitled “Financing the Modernization of Small Industries in India–Opportunities and Constraints”, viewed that the most critical constraint in the growth and progress of SSIs sector in India had been its obsolete technological base, which severely impaired its capacity to optimally utilize the full potential of the labour and equipment engaged in it. Consequently, it also resulted in low labour and capital productivities and under-utilization of capacities.

Harinath Reddy’s (2000) study on Working Capital Management in Small-Scale Industries, indicating improper controls on the working capital funding. The preparation of periodical working capital reports at least once a month, better planning to overcome shortages and over trading are some of the steps suggested

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and above all banks to monitor working capital utilization to detect early signs of sickness. Jyotirmayee Khar (1999-2000), in his article “Credit Repayment by the Small-Scale Industries”, highlighted that lending programme to the small-scale sector was fraught with two primary problems: administered rate of interest, insufficient to meet the cost and risk of small business lending, had forced the financing institutions to channelize their resources towards the large corporate sector considered less risky. Pradeep (2001), in his work, “A Study of Constraints Analysis for Promotion of Small-Scale Agro Processing Industries”, undertaken in the State of Haryana opined that education, innovation proneness, cosmopolitans, extension contract, mass media exposures, risk preference and annual income of the family were important variables interlinked with the problems encountered by the entrepreneurs. Pandit (2001), in his article entitled, “Trade Policies and their Impact on Small Enterprises in India”, stated that the

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investment structure of the small-scale enterprises in India as per the second All India Industrial Census (1987-88) had shown that about 95 per cent of these enterprises was tiny/micro having investment of Rs.0.5 million. Due to low capital in this segment, the technology used by tiny units was obsolete and of traditional type that affected both productivity and quality of production and hence their competitiveness. The tiny units had been catering to the requirements of the lower and middle income level customers predominantly in the rural and semi-urban areas. Only five per cent of the small-scale enterprises had higher level of capital investment and acquired comparatively better level of technology, he observed.

Khan (2001), in his article entitled “Financing of Small-Scale Industries in Maharashtra”, found that there was an urgent need to review the labour provisions for small units and bring about simplicity and transparency. The issues of labour laws assumed significance for the small industry. The multiplicity of labour Act and legislation enacted and administered by the State Government had neither proved useful to the workers nor to the industry. He suggested that

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the Central Government should come out with a single comprehensive labour act for the small sector as a model and the State Government may be asked to implement the same in the place of the existing labour legislation. He further stated that the technology development and modernization fund must be augmented to provide financial assistance to quality projects aimed at strengthening export capabilities of small units.

Rudra Murthy (2001) in his study entitled “Institutional Finance for the Development of the SSI in Karnataka”, stated that availability of institutional finance has not met the demand from the SSIs sector. The educational background of the owner had little impact on the running of the unit. Proprietary and partnership firms were found to be more prompt and regular in repayment of loans than limited companies. The study suggests for setting up of an SSI mutual fund, more specialized SSIs branches and modification of Narasimham Committee report to suit the SSIs sector.

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Thillainayagam (2002),\textsuperscript{44} in his study entitled “Small-Scale Industries and World Trade Organization”, observed that large corporations could not do both production and marketing in an efficient way, but could concentrate on international marketing of products only. Large Corporation may develop horizontal networking through ancillarisation. Small units could be brought under subcontract. The small and medium units could concentrate on production without worrying about marketing of their products. Wherever feasible, large international companies could function as assembling units, small and medium enterprises could produce intermediate products or ancillaries to the principal assembling units. There could be technological tie-up between the principal units and ancillary units. This joint venture production would take care of the equity problem of small-scale units.

Rolland Le Brasseur, et al, (2003),\textsuperscript{45} utilized an empirical study of 145 new venture start-ups to explore a model of growth momentum as measured by sales. The primary interests are the relationship among pre-startup


activities, intended and actual business expansion activities, and early stage performance. Results indicated that the sales level achieved in the second years had a positive correlation with (i) the breadth of pre-startup activities, and (ii) the range of expansion activities. Business performance had a negative correlation with the time’s relative dependence on the technical skills of the owner-manager. In addition, the study revealed a consistent gap between owner-manager’s expansion intentions and actual expansion.

Vijay Vayas (2005), outlined the essence of the strategies for the survival and growth of new ventures. According to him the productivity, profit and growth of and enterprise are closely linked to its ability to innovate successfully. The accelerating technological change, however, has made innovation increasingly difficult for the small business. Notwithstanding the high profile success of a few start-ups, innovation confrontations with mature business (sic) a large number of ordinary entrepreneurs are losing in this battle of the unequals. The very spirit of entrepreneurship embodied in over sprouting small enterprises, a strategy of

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imitation facilitated entry and subsequent consideration through incremental innovation should be targeted at the lower part of the value chain.

Muraliselvam (2007)\textsuperscript{47} in his article “Small-Scale Industries for large employment”, mentioned that SSIs sector in India creates the largest employment opportunities for the Indian populace, next only to agriculture and noted that the problems of small-scale industries are problems of finance, lack of adequate raw material, scarcity of power and irregular availability of power poor marketing facilities, problem of technical know-how, poor transport facilities, competition from large scale industries, lack of machinery and equipment.

Murali Krishna (2007)\textsuperscript{48} observed that the Small-Scale Sector (SSS) happens to be at crossroads at present juncture. The new economic conditions have thrown open new challenges in the form of competition and opportunities for scaling new heights. The competitive conditions call for reduced cost of production which inter alia depends on cost of credit and improvement in quality, which is the function of technology, the emergence of


multilateral trade regime in the form of WTO and the benefits and strings attached with it. It is essential to remove the constraints which limit the competition strength of Indian industry. It is not only the question of India coping with WTO regime but of greater issue of how Indian can leverage the benefits of larger access to global market.

Venkatesh (2007)\textsuperscript{49} stated that the central factor in the entrepreneurial success has been the objective evaluation of projects submitted by the entrepreneurs. The negligence of evaluation role leads to incipient sickness itself leading to the squandering of scarce financial resources and demoralizing effect on entrepreneurial spirit in the right direction and the financial institutions have to develop appropriate strategies in this regard so that small units grow in multitudes achieving to success parameters, and not becoming a burden on the economy as we find them at present.

Valasamma Antony (2007)\textsuperscript{50} observed that the marketing assistance can be growth through forming consortiums enterprises to enter into the nation and international markets.


conferences in the level of trade blocks worth promote the knowledge and confidence level of the indigenous producers formation in respect of global market conditions in various fields/industrial should be made available to the entrepreneurs through net work facility. In short, consistent efforts persistent policy administration on part of the Government as well as specialized institutions, together the co-operation of the entrepreneurs class would drive this sector to great heights of success.

Uma Rani (2007) argued that by its less capital intensive and high labour absorption nature, the SSIs sector had made significant contributions to employment generation and also to rural industrialization. This sector is ideally suited to build on the strength of our traditional skills and knowledge by infusion of technologies, capital and innovative marketing practices. Small scale sector has emerged as a dynamic and vibrant sector of the economy due to the new reforms. In the years to come, the SSIs would be exploited of its fullest export potential.

Sudarsana Murthy and Narasaiah (2008) in their article, stated that to increase deposit, the managers of rural branches should make

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personal approach with the residents. The customers should be given due recognition by the bank officials and services to the customer should be its top priority. To increase the loan recovery the bank authorities should grant sanction to only the genuine cases analyzing the viability of the borrower. As a result of this, borrowers misuse the loan or use it for unproductive purpose and such loans cannot be easily recovered by the bank. The main reason of decreasing profits of the RRBs is increase in the administration expenses/operating expenses. In order to reduce administrative expenses and speedup work, all branches of the RRBs should be computerized.

Anbalagan (2008) in his article entitled “Role of Entrepreneur in Economic Development”, highlighted the role of state government in offering a range of incentive measures of entrepreneur for providing an impetus to industrialization. These incentives are mainly by way of providing land and development plots/sheds on concessional terms, industrial infrastructural facilities subsidy on investment (in selected areas) and on generating sets, sales tax and supply at reduced rates, seed capital assistance for setting up of units and the like.

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Sultan Singh (2008)\(^{54}\) in his article “A Study of the Quality of Services Provided to the SSI customers by Public Sector Banks”, explained that the customer is a God on our premises. By entering into our premises, he is giving us an opportunity to serve him, but we are not doing any favor by serving him. “Similar views were given in a study conducted by reichheld (published in Howard business review) that “five present increase in customer retention can increase profitability by 35 percent in banking business, 50 percent in insurance and brokerage and 125 percent in credit card market”. Therefore, customer retention is of paramount importance for the profitability of banking business. Someone has rightly said, “It takes months to find a good customer but only seconds to lose one”.

Ganesan (2009)\(^{55}\) in his study entitled, “Institutional Finance for Small-Scale Industries–An Overview”, stated that the finance is the lifeblood of any sort of business, trade, commercial or industry. Banks and financial institution are not merely money-distributing agencies but they also help in bringing about total transformation of the


economic system. This paper analyses the institutional landings to the SSIs sector in India and Tamil Nadu, particularly Madurai district. Adequate and timely credit at reasonable rates of interest, without collaterals, is an essential requirement of the small-scale sector in India. Development of small-scale industries is vital for achieving the socio-economic objective like generating more employment, removing economic backwardness especially in rural areas.

Selakumar and Kathirvan (2009)\textsuperscript{56} in their article entitled “A Study of Priority Sector Advances of Commercial Banks in India” stated that currency futures is transferable futures contract that specifies the price at which a specified currency can be bought or sold at a future date. It is said that for those who have the ability to convert the local and globally available information into a directional price call on currency, there is no better market to trade in. the currency futures markets help benefit financially by analyzing such information. Research analysts suggest that in order to trade effectively and profitably in currency futures, an investor needs to strategize his/her investments. According to Vandana Bharti, “Since the currency futures

are denominated in dollar and globally, the dollar is traded as commodity, one need to track the international commodity index while developing the outlook of rupee”. The government is expanding derivatives trading to help investors cope with widening fluctuations in rupee, which has treaded at a decade high and a 17-month low during the past year. The coming time will tell the success of this new risk management tool in the Indian financial market.

Soundararaja and Singh (2009) in their article entitled “Small-Scale Industries in India: SWOT Analysis” stated that the financial institutions like the SIDBI, the SFCS, the IRBI, the NFC, the SIDC, the ICICI, the IDBI, the TIIC and Commercial Banks provide financing and renovation loans for small-scale industries units. The SIDBI gives priority to modernization programs, export orientations, import substitution, handling of materials, handling of machineries, anti-pollution measures etc. financial institutions land loans at concessional rate of interest when compared to medium scale and large scale industries. The Industrial Reconstruction Bank of India (IRBI) is exclusively started for attending special problems of sick SSIs units needing

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reconstruction. In order to protect, support and promote the SSIs, a number of protective and promotional measures have been undertaken by the government.

Yuvaraja Reddy (2009) observed that Andhra bank is one of the lending public sector banks which welcome radical change. Bank has to introduce centralized core banking solution. Bank has to tie up with LIC of India under banc assurance (life) which enables the bank to encourage savings habit among the people. It should try to create a record in the utilization of technology (computer), introduce automated teller machines (ATMs) in many branches to attract the busy customers leading to a better bank-customer relationship; diversify its activities by extending its services to areas like capital markets, credit card, housing finance and the like, are the most important steps the bank would take in the near future to enhance its share in the banking industry.

Rana Zehra Masood (2009) in his article entitled “Globalization and Its Impact on Small-Scale Industries –An Analysis”, these industries suffer from lack of reliable and stable economic infrastructure, reduced credit

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inflow and technology obsolescence thereby leading to inferior quality and low productivity. In the light of global competition, technology development innovations should be made, financial infrastructure should be broadened and adequate inflow of credit to the sector be ensured taking into consideration the growing investment demand for the Small-Scale Industries’ survival and growth.

Ganesan and Suresh Babu(2009)\textsuperscript{60} in their article explained that the lead bank is to plan for priority sector financing sector wise and finalise sector wise target for lending to each participating financial agency in the district. The participating agencies accept their targets for lending. The accepted share is called allocation. The actual financing made by the financial agencies in the priority sector during the plan period is recorded as achievement. A comparative study of allocation and achievement reveals performance. To measure the performance the percentage of achievement to allocation is used, after approximating them for fractions. The approximated performance percentages are called performance sectors.

Vetrivel and Iyyampillai (2009)\textsuperscript{61} in their article “Problems and Prospects of the SSIs in Tamil Nadu”, evaluated that the Small-Scale Industries Sector of Tamil Nadu as an impotent segment of Indian economy. The government policies do not reach all small-scale industrial units due to the political interference and lack of awareness of the entrepreneurs. Thus, the government should revamp the existing policies to cover all the SSI units. In addition to this, it may to provide more awareness to the entrepreneurs, through which we can enhance the performance of the SSIs in Tamil Nadu.

Limba Goud (2009)\textsuperscript{62} in his study entitled “Priority Sector Lending: Commercial Bank Lending to SSIs”, opined that Indian Banking sector experienced a series of reforms through restructuring and downward adjustments in interest rates, statutory prescriptions and the like, Gol appointed different committees to examine the credit delivery system to SSIs and to suggest ways of enhancing the availability of credit disbursement of commercial banks to the SSIs sector, it was observed that the share of the SSIs sector in total priority sector lending the period 1995 to 2007. To quote, the share of the SSIs sector credit in total priority


sector lending has been decreased from 42 percent in 1995 to 18 percent in 2007. Similar kind in the credit extended to SSIs by different bank groups.

Paramasivam (2010)\textsuperscript{63} in his article “Economics of Small-Scale Textile Industries: A Micro Study”, routed that the small-scale industries play a key role in India’s economic development which provides more employment opportunities, mobilization of small amount of capital, process of industrialization, utilization of local resources and reduce the regional imbalances of the country. Textile industry in Tirupur is also one of the largest sectors which dominate the exports of the country. Sickness of small-scale textile industry in Tirupur is one of the serious studies to find out the causes and remedies with the sustainable manners. If the responsible authorities take necessary active against the sick units, there is a possibility of reentry of these industries. This study concludes that, the sick units in Tirupur is curable with immediate actions and avoid this situation to other units in Tirupur with precautionary actions.

Jaynal Ud-din Ahmed (2010) in his article “Loan Recovery and Asset Quality of Commercial Banks: An Empirical Analysis”, found that, an urgent setup is warranted to arrest the unbridled virus of NPAs made by the banks in the study area over the period under consideration. Having analyzed various lacunas of accumulation of NPAs in the loan portfolio of banks, it may be observed that commercial banks have been committed towards the reduction and management of NPAs. The quality of asset portfolio has improved quite impressively over the period under consideration due to reform measures. However, a number of factors have been responsible for increasing the volume of NPAs of banks in the district. these are poor credit appraisal system, lack of foresightedness while sanctioning credit limits, lake of proper monitoring, reckless advances to achieve the budgetary targets, lack of sincere corporate culture, inadequate legal provisions on foreclosure and bankruptcy, change in economic polices/environment at the macro level, non transparent accounting policy and poor auditing practices, lack of coordination between banks and their customers.

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According to Ravindra Gowda and Shivakanth Shetty (2010)\textsuperscript{65}, being one of the major growth driver of the economy, the biggest challenge before the SMEs in the emerging market scenario is not only to survive but to grow on a sustainable development through either technology transfer or innovations or inter-firm linkages should be emphasized in the light of global competition. Financial infrastructure need to be broadness and adequate inflow of credit to the consideration the growing investment demand. In the context of economic reforms and globalization the small-scale industries must be competitive for their survival and growth otherwise they will perish resulting in colossal waste of scarce resources unemployment and retard the process of industrialization.

Karthihaselvi, Neelamegam and Magesan (2010)\textsuperscript{66} desorbed that small-scale industries were dreams of Mahatma Gandhi come true. He supported the growth of small-scale industries in India, because he had the vision that it would help the poor people of India to come up. Small-scale and micro industries are not


capital based, but the talent and effort based business. So even a middle class person can own and run this. According to new international poverty line of $1.25, around 40 per cent of Indian population is under poverty line. As it is hard to provide employment to all, at least we can encourage the self employment through small-scale industries. Fortunately the country is endowed with adequate natural resources. So it is a propitious time for the growth of small-scale industries, government can come up with the loan facility and proper training for these industries. This may encourage unemployed people to start their career in this sector. With the government’s scheme and succor, the dream of Mahatma Gandhi can come true.

Research Gap

The foregoing review of the past studies clearly reveals various dimensions of financial and non-financial supports extended by commercial banks for the development of small-scale industries at macro level. So for, no micro level study has been undertaken in respect of credit facilities offered by India’s larger commercial bank, namely State Bank of India to the development of small-scale industries in a developing district like Theni district. Hence, the researcher attempted to bring out the role of bank credit to small-scale industries in Theni district – a study with reference to State Bank of India.

1.4 Objectives of the Study

The specific objectives of the present study are

1. To study the development of the SSI units and the profile of the sample respondents in the study area.
2. To analyse the flow of institutional credit to the SSI units in India.

3. To analyse the extent of the financial assistance given by the State Bank of India to the SSI units in Theni district.

4. To analyse the impact of bank finance on the SSI units in Theni District.

5. To study the attitude of the owners of the SSI units towards lending services of the State Bank of India in the study area.

6. To conclude and suggest measures to ensure more flow of credit to the SSI units on the basis of findings of the study.

1.5 Hypotheses of the Study

In order to achieve the objectives of the study the following hypotheses have been formulated.

1. There is no significant difference in the value before and after availing loan from bank in respect of variables such as land, building, machinery, vehicle, furniture, tools and equipments, raw-material, finished goods, working capital, production, sales and profit.

2. The independent variables such as age, gender, education, area of location, nature of location, type of organization, nature of industry and disposable of loan, have not influenced the opinion of the owners of SSI units on lending services of the bank.
1.6 Operational Definition

i. **Small-Scale Unit**
   Any industrial unit having investment in plant machinery not exceeding five crore, rupees.

ii. **Entrepreneurship**
    Entrepreneurship means the function of seeking investment and production opportunity, organising an enterprise to undertake a new production process, raising capital, hiring labour, arranging the supply of raw-materials, finding site, introduction a new technique and commodities, discovering new sources of raw materials and selecting top mangers of day-to-day operations of the enterprise.

iii. **Entrepreneurs**
    Entrepreneurs are persons who initiate organise, manage and control the affairs of a business unit that combines the factors of production to supply goods and services, whether the business pertains to agriculture, industry, trade or profession.

iv. **SBI Group of Banks**
    The term, ‘State Bank of India Group of Banks’ refers to the branches of the SBI and its subsidiaries operating in Theni district.

v. **Nationalised Commercial Banks**
    The nationalized commercial banks are the branches of all nationalized commercial banks operating in Theni district.

vi. **Public Sector Commercial Banks**
    Public sector commercial banks are the branches of all the nationalized commercial banks including the State Bank of India operating in Theni district.

vii. **Private Sector Commercial Banks**
The private sector commercial banks are the branches of all the private banks operating in the district.

viii. **Financial Institutions**

Financial institutions are those institutions that grant important types of financial assistance such as term-finance, working capital finance, undertaking, venture capital, export finance, rehabilitation finance and direct subscriptions.

ix. **Tamil Nadu Industrial Investment Corporation Limited**

It is the state financial corporation limited with branches in the district.

1.7 **Methodology**

The present study is based on survey method. Both primary data and secondary data were used. The secondary data were extensively used to establish the conceptual framework of the study and the primary data were used to assess the opinion of the respondents in respect of lending services of the State Bank of India.

1.7.1 **Sampling Design**

The primary data were collected from SSI entrepreneurs who borrowed from State Bank of India, Theni district. There were 998 SSI entrepreneurs who availed loans from the State Bank of India in seven blocks of Theni district. A sample of 25 per cent of the SSI units located in all these seven blocks were chosen by adopting random sampling method. For this purpose Tippets random numbers were used. Thus 250 small-scale units form part of sample size for the present study.
The number of small-scale industrial units who borrowed from the State Bank of India in each block of Theni district and the selection of sample units constituting 25 percent of total units in each block is presented in the Table 1.1.

**TABLE 1.1**

**SELECTING OF SAMPLE UNITS**

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>Block</th>
<th>No of SSI Units</th>
<th>Sample Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Andipatti</td>
<td>153</td>
<td>38</td>
</tr>
<tr>
<td>2</td>
<td>Bodinayakanur</td>
<td>109</td>
<td>27</td>
</tr>
<tr>
<td>3</td>
<td>Chinnamanur</td>
<td>72</td>
<td>18</td>
</tr>
<tr>
<td>4</td>
<td>Cumbum</td>
<td>125</td>
<td>31</td>
</tr>
<tr>
<td>5</td>
<td>Periyakulam</td>
<td>177</td>
<td>45</td>
</tr>
<tr>
<td>6</td>
<td>Theni</td>
<td>275</td>
<td>69</td>
</tr>
<tr>
<td>7</td>
<td>UthamaPalayam</td>
<td>87</td>
<td>22</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>998</strong></td>
<td><strong>250</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Sources:**
1. Data Collected from Various Branches of SBI in Theni District.
2. Annual Credit Plan in Lead Bank, Theni District.

1.7.2 Collection of Data

For collecting primary a well designed interview schedule was constructed after identification of suitable variables to be studied. In this regard, the researcher had preliminary discussions with ten small-scale industrial owners and the officials of DIC, Theni. In the light of the information gathered, the researcher prepared an interview schedule which was pre-tested among 25 small-scale industrial owners. In the light of comments made by them, the final interview schedule was structured.

The secondary data were collected from various published and unpublished sources such as annual reports of DIC, Theni, Lead Bank Theni, TIIC, Chennai, SIDBI, RBI and from relevant Journals, magazines, newspapers and websites.
1.7.3 Data Processing

After the completion of the data collection, the filled up interview schedule were edited properly to make them ready for coding. A master Table was prepared to sum up all the information obtained in the interview schedule. With the help of the master Table, every information was coded and then coded information was transcribed on cards. With the help of the transcription cards, classification Tables were prepared. These were used for further analysis.

1.7.4 Tools of Analysis

In order to analyse the trend and growth of financial assistances given by the bank under study to the SSI units the following semi-log trend equation was fitted.

\[ \log y = a + bt \]

Where,

\[ y = \text{Amount of loans granted to SSIs units} \]
\[ t = \text{Time Variable} \]
\[ a \text{ and } b \text{ are constants to be estimated.} \]

The above model was computed by the method of least squares.

The following formula was used to calculate compound growth rate.

\[ \text{Compound Growth Rate (CGR)} = (\text{Antilog } b-1) \times 100 \]
The co-efficient of variation was calculated with the following formula in order to analyse the extent of variation in the loans granted by banks to the SSIs units.

\[
\text{Co-efficient of variation} = \frac{\text{Standard deviation (σ)}}{\text{Arithmetic mean ( } \bar{X} \text{ )}} \times 100
\]

\[
σ = \sqrt{\frac{\sum (x - \bar{X})^2}{N - 1}}
\]

\[
\bar{X} = \frac{\sum X}{N}
\]

Where,

\(\bar{X}\) = Loans given by banks to SSI units

\(N\) = Number of years.

**t – test**

To test the significance of differences in the selected variables before and after availing bank loans by small-scale industries in the study area, t-test of the following form was applied.

\[
t = \frac{\bar{d} \sqrt{n}}{S}
\]

\[
\bar{d} = X_1 - X_2
\]

\[
d = \frac{\sum d}{n}
\]
\[
S = \frac{\sqrt{\sum (d-d)^2}}{n}
\]

Where,

\(X_1\) = The mean of the first group (Before)

\(X_2\) = The mean of second group (After)

\(d\) = The mean of the difference

\(S\) = Standard Deviations of the difference.

**Factor Analysis**

The factor model may be represented as,

\[X_i = A_{j1} F_1 + A_{j2} F_2 + A_{j3} F_3 + \ldots + A_{jm} F_m + V_i + U_i\]

Where,

\(X_i\) = ‘i’ \(^{th}\) standardized variable

\(A_{ji}\) = Standardized multiple regression co-efficient of variable ‘i’ on common factor ‘j’

\(F\) = common factor

\(V_i\) = Standardized Regression Co-efficient of Variable ‘i’ on unique factor ‘j’

\(U_i\) = the unique factor for variable ‘i’

\(M\) = Number of common factors.

The unique factors are uncorrelated with each other and with common factors.

The common factors themselves can be expressed as linear combinations of the observed variables.
\[ F_{1} = \text{Estimate of } i^{th} \text{ factor} \]

\[ W_{i} = \text{Weight of Factor score co-efficient} \]

\[ K = \text{Number of variables}. \]

**Chi-Square test**

Chi-square test was applied in the present study to analyse the relationship between the independent factors and the level of opinion of owners of SSI units. Chi-square was calculated by using the following formula.

\[ X^{2} = \sum \frac{(O-E)^{2}}{E} \]

Where,

\[ O = \text{observed frequency} \]

\[ E = \text{expected frequency} \]

**1.8 Period of the Study**

The secondary data relating to advances in India and Tamil Nadu were obtained for a period of 12 years from 1998-99 to 20010-2011. The same data for Theni district was collected for the period of 13 years from 1998-99 to 2010-2011. The field survey was conducted to collect primary data from December 2010 to July 2011. The reference period of conducted survey was 2010-2011.

**1.9 Chapter Scheme**

The present study “Bank Credit to Small-Scale Industries in Theni District - A study with reference to State Bank of India” is divided into seven chapters.

The **Second Chapter** deals with the development of small-scale industries and profile of sample respondents which include the growth of small-scale industries in India, Tamil Nadu and in Theni district and Government polices concerning the financing of the SSIs. Further, reports of various committees on the financing of SSIs sectors are also dealt with. The profile of the respondents is also presented in this chapter.

The **Third Chapter** discusses the various institutional assistance given to the small-scale industrial sector by various institutions at central and state level.

The **Fourth Chapter** analyses the trend and growth of Bank Finances to small-scale industries in India, Tamil Nadu and Theni district.

The **Fifth Chapter** examines the impact of bank finance on small-scale industries in Theni district.

The **Sixth Chapter** discusses the attitude of owners of the SSIs units towards the lending services of State Bank of India in Theni district. Further, it examines the factors influencing the level of opinion of owners of SSI units with regard to the services rendered by the State Bank of India, Theni.

The **Seventh Chapter** presents the summary of the findings of the present study and the suggestions made in the context of research findings.