Chapter VII

SUMMARY AND CONCLUSION

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SMALL-SCALE INDUSTRIES

India’s concern and support for small-scale enterprises is focused excessively on the small-scale industry. This can, perhaps, be traced back to Mahatma Gandhi’s special concern for handicrafts and village-based industries. Various measures taken by the central and state governments, for the development of the SSI have included product reservations, fiscal concessions, preferential allocation of credit and interest subsidy in a credit-rationing framework, extension of business and technical services, preference in government procurement, marketing assistance including export promotion by institutions such as National Small Industries Corporation, Small Industries Development Organization, Handicrafts and Handloom Promotion Corporation, and Khadi and Village Industries Commission, as also promotion of anciliarization, and so on.

Today, the Small-scale Industry (SSI) constitutes a very important segment of the Indian economy. Credit for the development of this sector is due primarily to the vision of former Prime Minister Jawaharlal Nehru who sought to develop core industry and put in supporting sectors in the form of small-sector enterprises. The small-scale sector has emerged as a dynamic and vibrant sector of the economy. It is a well-recognized fact that a vibrant small-scale sector holds the key to economic prosperity in an economy like India characterized by abundant labour supply, unemployment and underemployment, capital scarcity, growing modern
large industrial sector providing scope for ancillaryisation and so on. The sector has grown phenomenally during the past five decades besides playing a vital role in fulfilling India’s socio-economic objectives. The number of small-scale units has increased from an estimated 8.74 lakh in 1980-81 to 32.25 lakh in 1999-2000. In fact, the small-scale sector accounts for about 35 percent of the country’s industrial production, 40 percent of exports and 60 percent of employment opportunities. Over ten years have passed since the process of liberalization and globalization have affected the fortunes of Indian small-scale enterprises (SSE).

**Policy Initiates on SSI Sector In 2004-2005**

The National Commission on Enterprises in the unorganized /informal Sector was set up in September 2004. The Commission will, inter-alia, recommend measures considered necessary for improvement in the productivity of these enterprises, generation of large scale employment opportunities on a sustainable basis, linkage of the sector to institutional framework in areas like credit, raw material supply, infrastructure, technology upgradation, marketing facilities and skill development.

85 items reserved for exclusive manufacture in the SSI sector consisting of chemicals and their products, leather and leather products, laboratory reagents etc. were deserved in October 2004.
Selective enhancement of investment in plant and machinery from Rs. 1 crore to Rs. 5 crore carried out in respect of 13 items in stationery sector and 10 items in the drugs and pharmaceutical sector from October, 2004.

The Union budget announced that banks would provide credit to the SSI sector within an interest rate band of 2 per cent above and below Prime Lending Rate (PLR). All public sector banks have adopted this norm.

The composite loan limit for SSI units was enhanced from Rs. 50 lakh to 1 crore.

In its mid-term review of Monetary and Credit Policy, the RBI announced that banks might enhance the limit of dispensation of collateral requirements for loans from the existing Rs. 15 lakh to Rs. 25 lakh on the basis of good track record and financial position of the units.

The lower limit of Rs. 5 lakh on loans covered under the Credit Guarantee scheme has been removed. All loans up to Rs. 25 lakh made eligible for guarantee cover under the Credit Guarantee Scheme.

417 SSI specialized bank branches are made operational throughout the country.

The final results of third All India Census of Small-scale Industries were released on January 17, 2004.
In the first phase, 60 clusters were identified for focused development by including their credit requirements in the respective State Credit Plans. Setting up of a Small and Medium Enterprises Fund (SMEF) of Rs. 10,000 crore under SIDBI, to inter alia, address the problems of inadequacy of financial resources at highly competitive rates for small-scale sector.

Laghu Uddyami Credit Card scheme liberalized with enhanced credit limit of Rs. 10 lakh (up from 2 lakh rupees) for borrowers with satisfactory track records.

**CAPACITY UTILIZATION**

Every industrial unit with a certain amount of fixed plant and machinery and internal organizational setup has some maximum production limit. It is that level of output, which if achieved, will bring the entrepreneur the maximum output as the lowest possible cost per unit. Such a level of output is known as the “productive capacity” of an industrial unit. When an industrial unit operates below its normal capacity level during a particular period of time, it is said to be in under-utilised capacity.

Every industrial unit aims at producing at the maximum capacity level which depends upon various factors varying from industry to industry, place to place and even from time to time in the same industry. However, in general, the factors which exert great influence on the
attainment of productive capacity are the availability of materials, power and fuel, use of technology, existence of good market, supply of skilled labour, availability of working capital, existence of good transport and communication network and technical and managerial efficiency of the entrepreneurs. In the some cases it is greatly influenced by climatic conditions of the locality and Governmental policies relating to taxation and other legislations affecting the industry.

Underutilization of productive capacity may create various disastrous effects on the industrial unit in particular and the economy in general. It blocks a substantial amount of fixed capital up in plant and machinery by keeping them idle there by raising the cost of production per unit. As the unit cost of the production goes up, the marketing strength and the profitability of the concern also are adversely affected which in turn gradually weaken the pecuniary condition of the industrial unit leading to its sickness. Thus, underutilization of capacity has “wider ramifications which aggravate the problem”.

Thus capacity underutilization by labour intensive small-scale industrial units can contribute significantly towards the creation of a vicious circle of poverty by reducing the effective demand of the working class.

Most of the studies conducted in developing countries in general and in India in particular have tried to explain the existence of
underutilization of capacity. In spite of general acceptance of the existence of underutilization of capacity, this area of study emerged either in response to recession that affected the industrial sector during 1966 to 1975 or in order to study the effect of government policies regarding trade and industry on underutilization of capacity. Hence these studies, broadly speaking, are trying to link the underutilization of capacity with the factors that are exogenous to the firms.

Majority of the small scale units in Dakshin Kannada and Udupi district belong to partnership pattern of ownership. As far as their turnover of business is concerned most of them are doing business from the last 10 to 30 years. Most of the units are located in the industrial estates. It is quite interesting to note that most of the entrepreneurs have industrial background. Most of the owners possessed graduate level of education. Capital investment of most of the units is between Rs.50 and 100 lakhs. Food, Beverages and Fisheries account for the highest number of units in the sample study survey. On an average, most of the units employed 25 to 50 workers. It is quite miserable to note that only a negligible portion of the units obtained ISO certification. The maximum turnover achieved falls in the region of Rs.60 to 80 Lakhs. It is also observed that most of the industries are mechanized and capital intensive. Finally, a small portion of the sample survey units is not performing well and declared as sick units.
As far as capacity utilization is concerned 5 percent of the sample survey are currently utilizing 25 percent of the installed capacity. Twenty three percent of the total sample units are utilizing between 25 and 50 percent of their installed capacity. The units utilizing the installed capacity in the region of 51 to 75 percent are around 43 percent. Only 29 percent of the sample units are utilizing more than 75 percent of their installed capacity.

Based on the present research study, it can be concluded that due to ignorance of implementing the scientific / industrial techniques, lack of managerial trainings insufficient education and other problems like power, finance, raw materials and working atmosphere, these entrepreneurs are not able to utilize their installed production capacity. In this regard given suggestions will prove very helpful to the entrepreneurs.

It is reported by the entrepreneurs that they are facing actual financial problems in the area of working capital and procedure regarding sanction of the loans. In order to solve this problem, it is suggested that

a. Limit of borrowing loans be increased for registered units so that this sector may compete in open market.

b. Guarantor system may be introduced for providing loan facility in place of security. In this way this sector may get rid off these complications.
The entrepreneurs are of the opinion that they pay high markup to public as well as private sectors. It is therefore suggested that

a. Government should take necessary measures to enhance this sector and direct the banks/financial institutions that markup rates be minimized to some extent, considering the difficulties faced by entrepreneurs and for the progress of this sector by which prosperity of the country is expected.

Inadequate and irregular supply of electricity is the big problem faced by small entrepreneurs. Frequent tripping and load shedding are also problems of this sector. In order to get rid off the power problems faced by the small industrial units it is suggested that

a. The electricity board should ensure an uninterrupted power supply for at least 10 to 12 hours a day during normal working hours of the industries

b. The government should direct electricity board to levy electric charges on actual consumption of the power.

c. If possible small entrepreneurs should install diesel generators as stand by

d. Due to heavy competition in the market, entrepreneurs of this sector cannot procure raw material from open market because of insufficient provision of funds.
It is suggested to ensure easy availability of raw material at considerable rates and in moderate quantities, government should make necessary arrangements and activate the related developments already established for this purpose, so that this sector can compete in the market.

The entrepreneurs should take care of poor working conditions of the units and effective measures should be taken to make proper arrangements of lighting, drinking water, ventilation and sanitation. They should appreciate the need of providing welfare measures and other amenities to the workers.

In case of education, it is suggested that entrepreneurs should try to improve their education for retaining the socio-economic goals, betterment of country and their own survival in the competitive world.

As far as managerial training and implementation of industrial techniques are concerned it is suggested that

a. Government Advisory Service Department should take necessary steps to motivate small entrepreneurs for upgrading their level of education to implement required industrial/scientific techniques.

b. Seminars be conducted and training programme be arranged to equip these entrepreneurs with required managerial knowledge of industry.

c. Certificate be awarded to successful entrepreneurs and subsidies be given for such units.
Production is a complex proposition. Production is related with the degree of utilization of minimal facilities available. The entrepreneur can increase production with a combination of lower overheads, more skilful workers, personal innovations in tooling, imbibing more efficient production process and production sequences. An efficient production management also results in higher production output. In reality, the entrepreneur is fully utilizing the available inputs to produce goods at reasonably low cost and earn a higher margin of profit and at the same time, produce goods of quality to withstand competition and an edge over others. Utilisation of production facilities will also ensure small scale industries to widen the spectrum of business environment.

In scenario of facilitated exchange of technology, surplus value will be created best from knowledge and fully utilizing the production resources. It is important to predict events, but much more significant is to learn from them and thus visualize the scenario that is likely to emerge. Today’s enterprise is in race against time. It must speed up its tempo of learning, in order not to get left behind in developments and events that are taking place in society, technology and environment. While demand creation and product promotion may remain in focus, the enterprises have also to focus on production of quality goods. To produce good and step up production, the enterprises have to fully utilize the production
facilities. There has to be adequate foresight to anticipate and enough flexibility to respond to local, national and global sensitivities.

Lack of real consultants is adding to the problem. The so called consultants who exist in large numbers, tend to indicate every project as viable as otherwise it affects their own viability and existence. They make every project a success on paper and in reality hardly 20 percent of the projects register success. The practice of starting enterprises based on exemptions and subsidies is adding to the problem.

Thus a deep study of the capacity utilisation in small industries is a crying need. The government policy also needs review in the interest of promoting fuller growth of small-scale units and making them viable.

In the present study an attempt has been made to examine the capacity utilisation of small-scale industries in Udupi and Dakshina Kannada Districts and the reasons for not utilizing the capacity to the full extent. Capacity utilisation is examined taking into account the location of the unit, the industry group to which it belongs, year of establishment, form of organization, investment in plant and machinery, the entrepreneur’s background and reasons indicated by the entrepreneur.

The small manufacturer compensates for lack of modern facilities and more efficient production processes with a combination of lower overhead, more skilful workers and a number of personal innovations in tooling and production sequences. He can now maintain a competitive
position with such compensations. When capital requirements for manufacturing become substantial, he must use considerable resourcefulness to put together his manufacturing operations so that he is not overcapitalized. More importantly, fuller utilisation of production facilities will ensure higher production at a maximum scale of economies to the entrepreneur or manufacturer.

**DIRECTIONS FOR FUTURE RESEARCH**

The Current study “Capacity Utilization in Small-Scale Industries: A Study of Select Small-Scale Industrial Units in Dakshina Kannada And Udupi Districts of Karnataka State” is a micro study on the capacity utilization of Small-Scale Units in two Districts of Karnataka state. Therefore, the discussions, results and research findings of this study can not be generalized due to cross cultural socio-economic and geographical differences. The results and discussions of this research study can not be replicated in other parts of the country. Therefore, fresh research study can be undertaken with different sample size and parameters so as to obtain better qualitative findings.

**CONCLUSION**

This empirical study examined the working of Small-Scale units, measured and assessed capacity utilization and projected the disastrous consequences of underutilization of capacity. It is also observed that every project is a success on paper and in reality hardly 20 percent of the
projects register success. This trend has created a social and economical insecurity among the owners of SS units to bring about a change. Fuller utilization of production facility will ensure higher production at a maximum scale of economics to the entrepreneur. Therefore, the owners of Small-Scale units should identify the real problems confronting them and take necessary and appropriate measures to come out of the crisis.

Now in this era of socio-economic transformation and favourable conditions, it is the turn of small-scale industries to rise to the occasion and tell the society that they are capable of producing results.