Chapter I

INTRODUCTION

CONTENTS

• INTRODUCTION
• SMALL-SCALE INDUSTRIES IN INDIA
• CAPACITY UNDERUTILIZATION
• RESEARCH QUESTIONS
• OBJECTIVES OF THE STUDY
• HYPOTHESES
• RESEARCH METHODOLOGY AND SAMPLE DESIGN
• SCOPE AND LIMITATION OF THE STUDY
• CHAPTER SCHEME
INTRODUCTION

The Small-Scale Industries have a place of pride in our economy. They have a high potential among others, for generating employment, dispersal to semi urban and rural areas, promoting entrepreneurship and earning foreign exchange. Aware of this, the SSIs have been accorded a strategic position in the successive five-year plans towards fulfillment of the socio-economic objectives, particularly in achieving growth with equity.

During the past 50 years, the small enterprises and tiny sectors received attention in the general industrial policy resolutions. The primary objective of the small-scale industrial policy, 1991 is to impart more vitality and growth impetus to the sector so that small-scale enterprises could contribute to growth of output, employment, export and efficient and value added products and services. The growth of small-scale units has been one of the most significant features of planned economic development. The number of small-scale units registered a phenomenal growth from 12000 units in 1947 to 50 lakhs in 2006.

Employment

The small-scale industries made significant contribution to growth of employment during the six decades. Over the years employment in small-scale sector rose by 5 lakhs in 1947 to 250 lakhs in 2007. The growth rate has been higher than in large industries with around 5 percent
per annum. The contribution of small-scale industries in terms of employment as well as their share of the total number of establishments in the manufacturing sector is on increase since 1977.

In Indian context, we have not defined medium enterprises clearly so far. What is neither small nor large is being loosely defined as medium. Further, enterprise encompasses business, services and industries. In the broad band of “small”, the discussion extends to medium as well. Another possible connotation for SMEs is the small manufacturing enterprise.

Small and medium enterprises, both in size and shape, are not uniform across the globe. This asymmetry comes in the way of any effort of their integration. The way they are defined depends on the stage of economic development and the broad policy purposes for which the definition is used. According to a World Bank study, there are more than 60 definitions of small and medium industries used in 75 countries surveyed. The most commonly used definitions relate to either size of employment and / or quantum of capital investments / fixed assets. As the process of economic development leads to changes in industrial sector shares in GDP and the contribution of sub-sectors within industry, the definition is extended to include not only manufacturing industries but also all enterprises which fall within or below the defined cut off point. In the ASEAN countries in general, the definition is restricted to SMIs in
the manufacturing sector only, whereas in the European Group, the definition is broadened to include all small and medium enterprises.

In the present study both small-scale and medium industries are considered together to know the status of the industries. But in order to assess the capacity utilisation, only small industries are taken in to consideration.

The Central and State Governments have been encouraging the small-scale industries over the years. Series of institutions have been set up by the Central Government, State Governments, industry associations and non-government organizations to provide financial assistance, technical consultancy, information, training, marketing support, legal advice etc. It was hoped that such encouragement would result in healthy development and progress of the small-scale industries leading to increased production in various sectors, creation of vast employment opportunities, good resource mobilization and providing consumer satisfaction. Even, almost all political parties have been supporting expansion of small-scale industries. Thus, there were high expectations that there would be an increase in turnover, production, profit margin, capacity utilization and exports. But the hopes have not been satisfactorily fulfilled.

Small-Scale units engage themselves in various kinds of manufacturing such as manufacturing of metal alloys and products,
machinery, electrical equipments, chemicals, drugs, electronics and miscellaneous products. Their numbers have been increasing. Nationalized Banks, Financial Corporation and other agencies, both under public and private sectors, have been financing the small-scale industries. But most of the small-scale units have not been able to achieve capacity utilization. A very few of them have been able to achieve a capacity utilization greater than 80 percent, as revealed by surveys. Thus many of them do not plan to undertake a fresh infusion of capital. Thus, there are a large number of sick units. On the one hand they are suffering from under capacity utilization and on the other, low profit margin. Perhaps one defect has led to another handicap and vice versa. Therefore, they fail to secure adequate order for their products and covering the operational costs and incur losses. Disturbed labour relations have further aggravated their difficulties.

This is not good for the economy of the country as a whole as the financial institutions and the banks in the country themselves are becoming sick on account of the rising burden of non-performing assets’ of industrial units and other enterprises (Varshneya committee report). A few years back, State Bank of India who is the pioneer in the field of financing Small-Scale Industrial units got the subject studied in detail by appointing a study group that gave the noted “Varshenya Committee
Report” which gave the definition of sick industrial unit. The said report has clearly indicated that the major problems are:

i) Marketing difficulties faced by the industrial units.

ii) Financial indiscipline or more importantly lack of financial planning on the part of many enterprises.

On the whole, the major reason for the present state of affairs is on account of the growing tendencies to start enterprises without adequate market studies and feasibility studies. New enterprises are started on the basis of perceived success of existing ones rather than on the basis of realities. In the process, excessive capacities are created in most of the industries and this result in continuous deterioration in the capacity utilization making most of the units to lose on a continuing basis.

Financial Institutions and Banks are equally responsible for the present state of affairs as they overlook the above vital factors and go on financing new units to complete the target under pressure- political or otherwise - and in the process land the industries in a mess.

Successive five year plans and industrial policies of our country have been reiterating the government policy of promoting small-scale units and extending support year after year by way of reserving some areas exclusively for this sector, purveying financial assistance at concessional rates, technical and managerial assistance through different
institutions set up for this purpose, marketing support, infrastructure facilities and the like.

Despite several measures for the promotion of this sector, it is very disappointing to observe that its performance has not been satisfactory. Majority of the units landed in sickness have become a grave concern to the Government. This situation is attributable to the complex and awesome problems arising in the areas of finance, production, marketing, labour that have resulted in under utilization of installed capacity. It is the outcome of lack of sufficient demand for the products, severe internal as well as external competition, scanty financial resources, non-availability of raw materials, labour unrest and has a deleterious impact on the units’ productivity and profitability. Thus, capacity utilization ultimately decides the prosperity of the small-scale units. It is the dire need of the hour to strike at the root of this malady and to create congenial milieu for the healthy functioning of small-scale units.

Under utilization may be the root cause of small-scale units’ ill health. There are different causes for underutilization of capacity in the small-scale units. These include power cut, lack of demand, lack of working capital, which appear to be the most serious problems hindering the full utilization of the installed capacity, which decides the quantum of production and its consequent profits. Other causes include lack of timely supply of required raw materials, concentration of many same lines of
units in one area, labour scarcity, inadequate infrastructure facilities, credit sales etc. Underutilization of the capacity is the result of several influencing factors and no single cause is responsible for it.

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 at 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 underutilized 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; still in 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 in plant and machinery per unit by keeping them idle thereby raising the cost of production per unit. As the unit cost of the production goes up, the marketing strength and the profitability of concern also are adversely affected which in turn gradually weaken the pecuniary conditions of the industrial unit leading to its sickness. Thus, underutilisation of capacity has ‘wider ramifications which aggravate the problem’

However, in respect of small-scale industries, which are labour intensive and capital sparing, capacity underutilisation has a “special significance” while compared to the capital intensive and labour sparing large industries. When a large industrial unit experiences underutilisation, the workers and the machinery are only under employed, but in case of a small unit which employs a large amount of workers on casual basis, its capacity underutilisation leads to unemployment of a large number of working force. Thus the working class faces the ‘brunt of underutilisation’ in case of small-scale industry.

Thus capacity underutilisation by labour intensive small-scale industrial units can contribute significantly towards the creation of vicious circle of poverty by reducing the effective demand of the working class.
The present study aims to examine the capacity utilization of selected small-scale units in the Dakshina Kannada and Udupi districts and reasons for not utilizing it to the full extent.

The small entrepreneur will increase his production by fully utilizing his machinery and labour. Non-utilization of these two important components results in an increase in the cost per unit. When all the necessary raw materials are available, a fuller utilization of machinery and labour will result in higher production. And every increase in production reduces the average cost per unit. This apart, the marginal cost is also considerable lower. Small entrepreneur has to plan in detail, so that no bottleneck crops up in between. In short, a full utilization of production facilities will result in a lower cost per unit. The cost of overheads too will go down. Therefore, the aim of small-scale industries should always be to utilize the production facilities fully.

There is a growing recognition worldwide that small and medium enterprises (SMEs) have an important role to play in the present context given their greater resource-use efficiency, capacity for employment generation, technological innovation, promoting inter-sectoral linkages, raising exports and developing entrepreneurial skills. Their locational flexibility is an important advantage in reducing regional imbalances. The future of SMEs is of major policy concern given their strategic importance in any discussion of reshaping the industrial sector. This is
more so in the case of India, which has one of the longest histories of government support to the small-scale industrial sector since independence compared to most of the developing countries.

In India, small-scale industries (SSIs) were given due importance in the process of industrialization as far back as 1951 when post-independence economic planning was initiated. The Industries Development and Regulation Act legislated by the Centre in that year, became the framework for the small-scale industrial sector's development. The Act determined licensing policies for the sector and the reservation of products, among several other important provisions. The definition of small-scale industries is mainly in terms of investment ceilings which have changed over the years to keep pace with economic development. Though employment and turnover are also used to define small industries as these indicators are implicit in the requirement for registration under the Factories Act, the core definition of SSIs in India remains based on investment limits - "historical costs of plant and machinery."

The small-scale sector, the world over, is playing a vital role in the growth of the national economies. SMEs have been rightly considered as the engine of growth in most countries. They enhance balanced regional industrial development and they act as a nursery of entrepreneurship.
Contribution of SSIs to the National Economy

The small-scale sector has stimulated economic activity of a far reaching magnitude and has played a significant role in attaining the following major objectives

- Elimination of economic backwardness of rural and underdeveloped regions in the country.
- Attainment of self-reliance
- Reduction of disparities in income, wealth and consumption
- Mobilization of resources of capital and skills and their optimum utilisation
- Creation of greater employment opportunities and increased output, income and standards of living
- Meeting a substantial part of the economy’s requirements for consumer goods and simple producer goods
- Provide employment and a steady source of income to the low-income groups living in rural and urban areas of the country
- Provide substitutes for various industrial products now being imported into the country and
- Improve the quality of Industrial products manufactured in the cottage industry sector and to enhance both production and exports

Over the years, the Governments of developing countries have adopted positive measures to defeat the forces of stagnation. To perform
this gigantic task, well-considered and most suited policies of economic development have been framed. The growth process of these countries aims at accelerating the economic development to enhance the social welfare. In fact, the economic change is a part of a wider social change and the economic development is a long-term process of intrinsic growth. Therefore, the task of policy making has a vital role to play in selecting the desired objectives and suitable alternatives for stimulating the economic growth. It also requires a careful examination of the existing institutional framework, social values, economic requirements and their implications, keeping in view, the need for rapid social and economic development of the economy.

**SMALL-SCALE INDUSTRIES IN INDIA**

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 ancillarisation 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. The process of liberalization and globalization has affected the fortunes of Indian small-scale enterprises (SSE) for over ten years now.

The small-scale industry sector has, over the past six decades, acquired a prominent place in the socio-economic development in the country. The sector has exhibited positive growth trends even during the periods when other sectors of the economy experienced either negative or nominal growth. Various policy initiatives undertaken by the governments by way of incentives or protection have helped the sector in acquiring the status of a major contributor in the growth process. In fact, though the SSI sector has demonstrated its strengths, the basic accent of the small-scale industrial policy has been defensive, aiming to insulate the sector from the dynamics of competitive growth. The process of liberalization and economic reforms, Since 1991, while creating tremendous opportunities for the growth of SSIs, have, however, thrown up new challenges for the sector. In the changing scenario, building competitive strengths, introducing technology upgradation and quality
improvement are vital issues, which need to be addressed in order to build the capability to withstand emerging pressures and ensure sustained growth. Also, the sector needs to reposition itself if it has to meet expanding demands for ancillary items, subcontracting and job work from other industrial units, requiring higher standards of quality, economies of scale, and strict delivery schedules. The thesis reaffirms the importance of industrialization as an effective means for solving the problems of economic and social progress in developing countries of the world.

Since the end of the Second World War, most of the developing countries are giving top priority to industrialization. Actually, the planners of most of the developing countries have regarded industrialization as the panacea for underdevelopment and poverty. The most primitive economies are now keenly interested in rapidly enlarging manufacturing industry. It is in rapid industrialization in which they place a major hope of finding a solution to their problems of poverty, insecurity and over-population and ending their newly realized backwardness in the modern world.

The poor countries believe that industrialization brings some basic changes in the production-functions and techniques, occupational structure and the level of activities in the other sectors of the economy. These changes will remove the obstacles which are retarding the growth and will raise the standard of living. Gunnar Myrdal has rightly pointed
out the relationship of industrialization to economic development when
he observes, “the manufacturing industry represents, in a sense, a higher
stage of production in advanced countries. The development of
manufacturing has been related with these countries’ spectacular
economic progress and rise in the levels of living. Not least in the
underdeveloped countries, the productivity in industry tends to be
considerably greater than in the traditional agricultural pursuits.

In the light of the aforesaid facts, it cannot be denied that
industrialization, in general, can be the best means of achieving the
higher growth rate and raising the living standards of the people. In the
context of the developing economics, a few a specific objects and policies
of industrialization have been generally agreed to be the planners. They
are to provide work for growing populations, to raise the standard of
living by increasing the per capita, net national income and often to
improve balance of the payments situations. Thus, the development of
small-scale industries alone can plan wise production, employment, sales
and earnings in village industries

In the Eighth Five Year Plan, the Government decision to allocate
50 percent of the plan size would mean even less of investment for the
infrastructure especially power which is a key input both for the
agricultural and industrial development (i.e.) cottage and small-scale
industries. A major change proposed in the Eighth Plan was to redefine
the Rural and Agricultural sector. There was a growing realization that if these heads of expenditure were taken out of the purview of rural and agricultural development, the total allocation to these sectors would amount to more than 60 percent of the total public sector investment.

The SME sector was identified as critical for poverty reduction in India’s 10th Five Year Plan, the National Common Minimum Program and the Country Strategy and Program (2002-2006).

The small industries have enough scope to exploit available local resources such as savings, raw materials and skilled and un-skilled labour. Further, they generate income for consumption of wage goods and provide employment to the unemployed.

The Industrial Policy Resolution, 1948 stressed the need for development of Small-Scale Industries. The objectives of the policy were:

- To establish social order where justice and equality of opportunities could be assured
- To raise the standard of living of the people through exploitation of talents and available resources of the country.
- To accelerate production to meet the needs of the growing population and
- To provide more and more opportunities for employment.

This policy was in force upto 1956.
During the first five-year plan, a major step was taken for the development of village and small industries. It was the establishment of six All India Boards to advise and assist the Government in the formulation of programmes for development of Khadi and handloom industry.

In this progressive economic scenario one sector that has emerged as the most happening is the small-scale sector. It is here that the SSI sector has dared to dream. With a vision to foster the growth of the Small-Scale sector resulting in sustained employment generation, accelerated economic growth and in fact, to act as a nursery for entrepreneurial development.

As a result of the initiatives the SSI sector has leapfrogged like never before. Its contribution to the various sectors of the economy is as follows

- An average growth of 7.4 percent by SSI sector in comparison to 4.7 percent of industry in general
- Employment generation for over lakh persons every year
- 9.5 percent of India’s industrial units are in SSI sector with 40 percent value addition in the manufacturing sector
- SSI share in total exports is around 35 percent
- SSI contributes 6.29 percent to G.D.P.

India is ranked among the ten most industrialized countries in the world. The Country has derived its economic strength from the growth of
small industries throughout its length and breadth. The pivotal role that small industries play in the economy of India can be judged by looking at the statistical data: more than 55 percent of the total production in India today is from the small-scale sector.

The process of globalization has not only introduced new dynamism, but also opened up new opportunities, as well as changed the business environment fundamentally. Its significance would be as follows

1. It has broken down barriers by connecting people across the world.
2. It has created information equality.
3. It has created a medium for a type of industry to expand globally with a speed and at costs inconceivable only a few years ago.
4. Information Technology has opened up revolutionary way of understanding, interacting and servicing the customer.

The 21st century is a time of great change, growth and learning. Following trends are driving the changes

- Telecommunications and computers will increasingly enable people-including farmers, fishermen and small traders- to change the way they work. As the use of technology spreads, many more will do so.
- Getting financed will be easier for small enterprises. Many banks recognize the opportunities for micro lending. Therefore, many smaller ventures will be born.
There will be increased participation in decision making at the grass roots levels. Not only will this be propelled by the first two trends, but it will also be reinforced by the belief that empowerment will improve productivity.

The downsizing of large enterprises will result in the growth of small enterprises and solo workers.

Small-scale industries enjoy certain inherent strengths such as lower over-head costs, flexibility in production, informality in labour relations, exploitation of local resources and skills, capacity to execute small orders and to offer customizes services.

The policy protection to the SSI sector should give way to a more proactive policy of helping them to enhance their competitiveness in a market-driven economy through improved product quality, increased productivity and innovation. It should aim at long-term sustainable growth of the SSI sector rather than at short-term subsistence.

The policy of reservation of certain items for the exclusive production by the small-scale sector has little relevance today with most of the reserved items placed on Open General License. In fact, it only serves to prevent the Indian industry from benefiting from economies of scale and from becoming globally competitive. This is particularly so in the case of labour-intensive and resource-based industries like the manufacture of garments, leather goods, toys and agro-processing. The
Abid Hussian Committee has forcefully argued in favour of scrapping it as far back as in 1997.

The rationale behind the policy of SSI reservation was studied by the Expert Committee on Small Enterprises (the Abid Hussian Committee), which submitted its report in 1997. The Committee listed the following arguments against reservation:

The policy has not actually helped the growth of small-scale industries

The units in the unreserved sector have actually grown faster than those in the reserved list. In other words, the SSI units have shown more dynamism in areas where they had to compete with large units. Reservation in many areas has become irrelevant since a large number of reserved products are not being produced by SSIs. It is also inconsistent with the new trade policy that allows the items reserved for the SSI sector to be freely imported.

A number of subsequent studies also recommended the de-reservation of items, the latest being the CII study, covering over 200 small enterprises, to analyse the impact of the removal of quantitative restrictions on the SSI sector. The study says the government’s reservation policy is hindering the SSI sector’s growth. It is, therefore, time to do away with SSI reservation and offer other forms of promotional support.
CAPACITY UNDERUTILIZATION

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; still in 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”. (Amarjit Singh and A.N. Sandhu, Industrial Economics)

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.

The development of small-scale industries is greatly encouraged in the developing countries of the third world because of their favorable capital-output ratio and large employment potentiality. Our national policymakers have also realized that the solution to the unemployment problem could well be found in the development of small-scale and village level industries. The Sixth plan (1980-85) mentions it categorically that “promotion of village and small scale industries will continue to be an important element of the national development strategy because of its very favorable capital-output ratio and high employment intensity”. Thus, it can safely be contended that the major objective
behind the state encouragement to the small-scale industrial sector is to generate more employment on one hand and to produce maximum amount of goods and services at the lowest possible investment on the other. But if a large productive capacity remains idle, the small-scale industrial sector will fail to achieve the objective for which it is devised. Instead, it may become an ‘economic waste of resources’ for the nation as a whole.

But unfortunately, underutilization of productive capacity has become a norm rather than an exception in the industrial scenario of India both at small scale and large scale levels. Though the extent of underutilisation varies from industry to industry and from year to year in the same industry, it can be safely said that the average level of capacity utilisation of Indian industries is fluctuating between 50 and 60 percent. Thus it has become a chronic malaise, which has evaded solution so far. A lot of factors are found to be responsible for such unpleasant situations; it may be partly due to bottlenecks arising out of inefficient management, inadequate supply of power, scarcity of raw materials and lack of other infrastructural facilities, shortage of capital, shortage of skilled manpower and partly due to defective governmental policies.

**Research Questions**

Several research studies have made an earnest attempt to identify the reasons for capacity underutilization but not in a sufficient measure.
No substantial stuff was found in the previous research studies to combat the situation. From this it follows that, there are several research gaps and loose ends in this domain. Hence, the present study titled “Capacity Utilization in Small-Scale Industries: A Study of Select Small-Scale Industrial Units in Dakshina Kannada And Udupi Districts of Karnataka State” is an earnest attempt to abridge the current research gap and throw additional light on the cloudy issues pertaining to under utilization of capacity in small-scale units in the Districts of Dakshina Kannada and Udupi of Karnataka State.

The present study intended to answer the following research questions.

1. What are the key factors responsible for underutilization of capacity in Small-Scale Industrial units in Dakshina Kannada and Udupi Districts?

2. What are the disastrous effects caused by underutilization of capacity on the normal functioning of the industrial units?

3. What measures do the industrial units adopt to mitigate dangers inherently involved in the under utilization of capacity?

4. What are the impediments in the way of resolving the problem of capacity under utilization?

5. How far Government programmes and schemes successful in resolving the crises of capacity under utilization?

6. How do capacity under utilization measured and assessed?
7. How a conceptually sound, operationally feasible and practically implementable solution model be offered?

**OBJECTIVES OF THE STUDY**

Central and State Government as well as their agencies for industrial developments have been launching a number of programmes, schemes and training facilities for the establishment, development and growth of small scale industries. They have also carrying out many studies and held numerous symposia, conferences, workshops etc and have discussed problems faced by small scale industries.

The Policies of central Government and state Governments in the matter of industrial development have undergone sweeping changes in the recent past particularly in the post-liberalization era. The allocations made in the five year plans, the policy measures taken in industrial statements and setting up of various national and state level institutions show the interest of government in supporting the development of small-scale units. In spite of various measures taken by the government the small-scale units in the country are ridden with various problems because of various reasons.

In this study emphasis will be given to the capacity utilization of selected small-scale industries in Dakshina Kannada district, particularly the extent and root causes for the underutilization of installed capacity in
the small-scale units and to suggest feasible ways and means to surmount problems to tone up the functioning of this sector

The specific objectives of the study include:

1. To examine and project the existing performance level of industrial units under study area.
2. To investigate into the reasons for underutilization of capacity in the Small-Scale Units.
3. To examine the relationship between the investment and capacity utilization.
4. To examine the relationship between the age of the unit and capacity utilization.
5. To examine the relationship between the background of the entrepreneur and capacity utilization.
6. To examine the relationship of labour intensive and capital intensive industries with respect to their capacity utilization.
7. To examine the implications of various programmes of the Government and other agencies.
8. To suggest suitable measures based on the findings of the study

HYPOTHESES

Based on an extensive review of literature pertaining to the field of current investigation, the following research hypotheses have been formulated for empirical scrutiny in this study.
H₁. Industrial sickness (poor performance) in small-scale industry tends to be largely due to capacity underutilization.

H₂. There is association between variables and capacity utilization. For this purpose the identified variables are: a) Location b) Age of units. C) Form of organization d) Background of entrepreneurs e) Investment

H₃. Capacity utilization is tending to be the same between labour intensive and capital intensive industries

H₄. There is association between capacity utilization and labour turnover.

H₅. There is association between profit making and capacity underutilization.
## Conceptual Frame Work Guiding the Present Research Study

<table>
<thead>
<tr>
<th>Contextual Setting</th>
<th>Objectives</th>
<th>Key Assumptions</th>
<th>Respondent Units</th>
<th>Outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Vital reasons for capacity utilization</td>
<td><em>Examine the Performance of SSIs in the study</em></td>
<td>(H_1): Poor performance in SSIs largely due to capacity underutilization.</td>
<td>Profile from different perspectives</td>
<td>• Implication of Research and Practice.</td>
</tr>
<tr>
<td>• Problems of sick units</td>
<td><em>Investigate the reasons of underutilization of capacity.</em></td>
<td>(H_2): There is association between variable and capacity utilization</td>
<td>• Individual profile of the SSIs units</td>
<td></td>
</tr>
<tr>
<td>• Government package to revitalize the SSIs</td>
<td><em>Examine the relationship between investment, age of the unit, background of the entrepreneur and capacity utilization.</em></td>
<td>(H_3): Capacity utilization tending to be the same between labor and capital intensive industries.</td>
<td>• Manpower related problems.</td>
<td></td>
</tr>
<tr>
<td>• Entrepreneurial Strategies to overcome the problems of capacity utilisation</td>
<td><em>Examine the relationship of labour and capital intensive industries with respect to their capacity utilization.</em></td>
<td>(H_4): Association between capacity utilization and labor turnover.</td>
<td>• Production related problems.</td>
<td></td>
</tr>
<tr>
<td></td>
<td><em>Implications of Government programmes.</em></td>
<td>(H_5): Association between profit making and capacity underutilization.</td>
<td>• Finance related problems.</td>
<td></td>
</tr>
<tr>
<td></td>
<td><em>Measures based on the findings of the study</em></td>
<td></td>
<td>• Marketing related problems.</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Current status of SSIs.</td>
<td></td>
</tr>
</tbody>
</table>

### Execution Process

- Seven Research questions
- Eight Research Objectives
- Five Research Hypothesis
- Descriptive and Diagnostic in nature
- Profile of the Respondent units
- Single stage Sampling—of SSI units (250)
- Dis-proportionate, Stratified, Random sampling technique
- Effective Response rate (83.3%)
RESEARCH METHODOLOGY AND SAMPLE DESIGN

The present study aims at examining the status of small industries, industrial policy and capacity utilization of small industries and the reasons for not utilizing capacity to the full extent. Capacity utilization has been examined taking into account the location of the unit, industry group to which it belongs, year of establishment, form of organization, investment in plant and machinery, the entrepreneur’s background and various reasons specified by the entrepreneurs.

The study is empirical in nature and it is based on the data collected with the help of an elaborate schedule/ questionnaire. Before collecting the relevant data a set of schedule/ questionnaire have been presented to a small group of sample units and adjustments are made according to the requirements. Research questionnaire contains fifty-four questions. Proforma of the questionnaire can be seen in appendix-1. Attempts have been made to elicit the correct information through discussions with the entrepreneurs.

Besides the primary data, necessary information and data are collected through secondary sources like periodicals, reports, Government Publications, publications of industrial associations, Research organizations, industrial directory and relevant company documents. Relevant information are also collected from District
Industrial Centers, Small and Medium Industries Association of Dakshina Kannada (Mangalore) and Udupi districts.

The survey was conducted during the period between January 2007 and December 2007. The District Industrial Centre supplied the total number of industrial units. Care was taken to include at least a few units from each industry group. Statistical packages and tools are used for analysis.

While conducting the research study, both the small and medium scale industries have been considered together to know the status of the industries. But to assess the capacity utilization, small and medium industries are taken into account based on their capital investment between Rs 10 lakhs and Rs 150 lakhs. All these units are considered as small-scale units. Capacity underutilisation is measured based on the installed capacity of the sample units.

As per the records for the Financial Year 2006-2007, 19,133 small and medium industries were registered with District Industries Centres of Dakshina Kannada and Udupi districts. But the pilot study revealed that more than 50 percent of the registered units were either sick or closed down and many had investment of less than Rs 5 lakhs. In both the Districts small industries are concentrated at Mangalore and Udupi Thashils (Taluku). Hence to conduct the sample survey through schedules/questionnaires, 350 sample units were selected on the basis of
convenience from these two cities. Further sample units were classified based on their nature of products/activities. Industries classified into ten types include:

<table>
<thead>
<tr>
<th>Category</th>
<th>Industries covered</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Food and beverages</td>
</tr>
<tr>
<td></td>
<td>Agro industries And Fisheries</td>
</tr>
<tr>
<td>B</td>
<td>Garments</td>
</tr>
<tr>
<td>C</td>
<td>Wood and Wood Products</td>
</tr>
<tr>
<td>D</td>
<td>Printing and Stationery</td>
</tr>
<tr>
<td>E</td>
<td>Leather and Leather products</td>
</tr>
<tr>
<td>F</td>
<td>Rubber and Plastic</td>
</tr>
<tr>
<td>G</td>
<td>Chemical and Chemical Products</td>
</tr>
<tr>
<td>H</td>
<td>Glass and Ceramics and Tile industries</td>
</tr>
<tr>
<td>I</td>
<td>Basic Metal and Metal Products</td>
</tr>
<tr>
<td>J</td>
<td>General Engineering and Machinery parts</td>
</tr>
<tr>
<td></td>
<td>Electric and Electronics</td>
</tr>
</tbody>
</table>

Out of 350 schedules /questionnaires issued to the sample units only 300 units responded and due to ambiguity 50 schedules /questionnaires rejected. Finally, data collected on 250 units are tabulated and analysed through both descriptive and inferential statistics, chi-square is used to interpret and to analyse the data.

**SCOPE AND LIMITATIONS OF THE STUDY**

**Scope**

A study on capacity utilization of small-scale industries has not been initiated in Dakshina Kannada and Udupi Districts and this
becomes a beginning to look into the complexities involved in the development and growth. This study is intended to take up the responsibility of making a case for small-scale industries participation in the economic development that may help us know better about the regional variation. And finally this study may fill the gap between the studies on small-scale industries conducted in this district and the policy matters of government, financial institutions and banks.

Limitations:

The findings, inferences, and conclusions cannot be generalized so as to make them applicable to other small scale industrial units in India or abroad due to cross economic, social and cultural differences and regional variations. Nevertheless, the limitations inherent in this study should not be viewed as serious deficiencies, instead they should be recognized as opportunities for future research in this domain.

Chapter Scheme:

Chapter I: “Introduction” presents the nature and scope of the study, objectives, hypotheses and research methodology. The source of data, data collection, sample design, justification for the study, limitations of the study and organization of the study are also included in this chapter.

Chapter II: “Conceptual and Theoretical Framework” gives a description of the relevant meaning, definition, concepts and theories pertaining to the field of study.
Chapter III: “Review of Literature”, is intended to provide the comprehensive review of literature on the subject. Results of earlier research conducted on the topic. It identifies the research gaps and scope for the further research.

Chapter IV: “Government Programmes : Implication on the Functioning of Small Scale Units” is devoted to project the Government of India as well as Government of Karnataka’s initiative for the development and growth of small industries in the Indian economic system. Implication and impact of various Government programmes are also discussed in this chapter.

Chapter V: “Profile of the sample units” This chapter is devoted to explain the industrial profile of two districts under study and also makes an attempt to project the profile of sample units.

Chapter VI: “Capacity Utilization: Measurement and Evaluation” projects and discusses the various reasons for under utilization of capacity, its measurement and evaluation and finally gives research findings and suggestions.

Chapter VII: “Summary and conclusion” presents a capsule summary of the results and discussions presented in earlier chapters. Finally, this chapter also intends to give some directions for future research in this field of study.