

CHAPTER - VII.

CONCLUSIONS & RECOMMENDATIONS.

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On the basis of the study made in the preceding chapters the following conclusion may be drawn.

There was no single definition to distinguish a healthy from a sick unit as different agencies like State Bank of India, The Central Small Industry Development Organisation, Government of India, Term lending institution and the Reserve Bank of India highlighted different symptom to identify a sick unit. As such there was need for a standard definition so as to diagnose the state of health of a unit under study.

Small Scale industrial units registered Steady progress during the period of last 15 years. From 1973-74 onwards their number increased 3.2 times upto 1987-88. Similarly, the value of output and number of persons employed in the sector rose by 5.91 & 1.82 times respectively. Exports from the sector increased by 3.13.

Since Independence Government of India has emphasized the important role assigned to the Small Scale Sector. However, the percentage of allocations for this section to total outlay in the plan periods ranged between 0.29 & 3.40. Thus, in readily much importance was not attached to the sector except for the establishment of different agencies for the promotion and development of Small-scale units.

In spite of the assistance to the sector from the State governments through their respective Directorates of industries & other agencies like the DICCS, SISIS, SIDCS, sickness in the sector did not show any decline, in addition, there were certain subsidy schemes such as the engineer entrepreneur schemes, interest subsidy schemes, margin money schemes, which might have prompted the starting of non viable Small Scale industrial units.

No doubt the constitution of nodal agencies in the DICCS in each district might have helped in getting clearance from various authorities to commence commercial production in Small Scale units without much delay. As the persons posted in it were from the same department they were not as helpful as expected. For instance, the incentive and promotional programmes of the Government were stimulating to many of the middle class and the educated unemployed who could not prepare project report as per the requirements of financial agencies which resulted in delay in the sanctioning of loans. This led to cost escalation which continued to threaten their financial position. Indeed, a more helpful attitude of the bureaucracy could have solved them.

Delayed payment by Government and large scale industrial units against purchasers from Small Scale units aggravated the problem of finance and accelerated their sickness. As against

this suppliers of raw materials and stores to Small-Scale units demanded cash payments on account of which their short term liquidity was jeopardised.

In the matter of allotment of controlled raw materials, large scale units were favoured by the Government at the cost of Small Scale units. With a view to shutting out competition Large-Scale suppliers denied indigenous raw-materials to Small-Scale units. Therefore, Small entrepreneurs had to divert more of their time and energy to raw materials, and their procurement from production. As a result, product standardisation was not achieved which created marketing problems.

Small Scale industrial units lacked their own sales network. Consequently marketing became a major problem. They sold their products to other organisation who marketed them under their own brand or trade names. Further the existence of competition among small units was another draw-back for the promotion of sales. As most of the interviewees were the first generation entrepreneurs, they lacked managerial competence & business experience to face competition.

Improper planning, Wrong cost estimation, diversion of funds from short term uses to long term needs and Personnel deficiencies were identified by the Tiwari Committee as major causes of sickness. Mal-allocation of resources in the economy

and improper policy of Government were considered the major causes of sickness by B.K. Agarwal. But in the opinions of S.L.N. Simha in experience of the management, political and economic environment that existed around the unit were the major causes, Government Policies here meant those relating taxation, Production, Pricing distribution and Tight Credit-Policy of financial institution, inadequate supply of essential inputs and shortage of power. All these factors were verified by making opinion surveys of entrepreneurs and were found to be true.

Sickness in the Small Scale Sector was different from that of large undertakings. In the present system of financing of Small-Scale units, there was an in-built disability which led to sickness. In other words, the educated unemployed entered the small-scale industrial field with meagre or no financial resources, lacked managerial capacity and technical know-how which ultimately led to sickness.

Sickness in Indian industry has not developed all of a sudden. It set in about a decade and half ago. Industrial licensing tended to encourage large-scale industrialists to create over-capacity.

In the earlier period industrial sickness was largely confined to the relatively older units of the engineering

sector of the eastern region whereas the present sickness was much more wide spread geographically, encompassing all types of industries especially new enter prises.

The general opinion was that sufficient data were not available about the small-scale sector. As such, the exact number of sick units could not be estimated for this sector. Some people deliberately created conditions of sickness in their units and handed them over to banks for aid. Therefore, the number of genuine sick units was not available. As different authorities adopted different definitions to identify sick units, the estimate of one authority regarding the number small-scale sector was not the same as those of others. The Government of Maharashtra tried very hard to prevent the sickness in the Small Scale industrial units. The IRCI & IRC is also established by the Central Government. MSSIDC came into existence to aid, Counsel and Project Small-Scale industries in the State various ways are suggested by the MSSIDC to prevent industrial sickness. The ways are change of management, introduction of a new product, purchasing of products by the government, and giving concession in the penal interest and rescheduling of the repayment of loans.

No Small-Scale industrial unit in the sample-sick or successful had the standard debt/equity ratio of 1:1 because most of them were floated with liberal financial

assistance offered by the government and other institutions. Therefore, it was impossible for these units to maintain 1:1 debt/equity ratio.

Ratio technique is very useful technique to study the symptoms of sick units. But in the above study all the 10 units are either sole proprietorship, or partnership units. The most of the owners are illiterate mestries. So proper accounting statements were not available for the study. Similarly, Financial Statements did not disclose the items which could not be translated into money. Likewise, the revealed only the position of a firm concerned at a point of time, but not the causes for its current status. One limitation was that the sample units had different accounting years and depreciation methods. Similarly, difference in size, age, line of product, location and infrastructural facilities, accounting policies and valuation methods, constituted further limitation. Therefore, this technique, though very useful, not used here to study the sample units.

In the case of Small Scale industrial units in the industrial estate of Shivajinagar most of the units are depending on the large units in the area, Production of oil engines was the main activity of these large units e.g. Rocket, Packo, Kolhapur Auto, Uchgaonkar Iron etc. As there was a great depression and recession in the Oil Engine

industry such large units decreased their production. It affects adversely on these Small units. The electrification of the small villages decreases the demand for the oil engines. These Small-Scale units did not find out some other lines or products to survive. The dues of the large units in the other states could not be collected and it affects on the dues of these Small Scale units in the area. Shortage of funds and decreasing demand and no new product were the problems and the units are put into great difficulties.

In the case of Unit 'B' shorage of raw material i.e. wax is the great problem. Only 30% of their requirement is to be allotted from the controlled quota. So it is but natural, that they are purchasing the raw material from the open market which is very costly which increases the cost of production. So it is difficult for the unit to remain in the competition which leads to decrease in orders.

Non availability of skilled workers is the problem before only one unit i.e. unit 'J'.

Old machinery and due which low quality and quantity is a problem of 3 units. i.e. Unit 'A', Unit 'D' & Unit 'J'.

As most of the units are sole proprietor owned units. The management expertise is also a problem before almost all

the units but Unit 'A', Unit 'B' and Unit 'E' are suffering mainly due to this reason.

Low quality of Pig Iron, and shortage of Pig Iron is the problem of Unit 'H'.

Strikes, Slowdown of work is the problem of 3 units only namely Unit 'B', Unit 'E' & Unit 'H'.

Lack of proper reporting accounting records and costing system are the common features of all the units. So all these must be properly adjusted.

RECOMMENDATIONS :

The analysis in the present study of 10 sample units in the industrial estate of Shivaji Udyamagar revealed that recession in the Oil Engine industry, Short and low quality supply of raw material from the controlled quota, labour problem, lack of management expertise, Marketing of products, Shortage of Working Capital, and Old machinery were the major problems are as resulting in sickness. To alleviate these problems a few suggestions are made as under :

1) DIVERSIFICATION :

7 out of 10 units studied are suffering due to the recession in the oil engine Industry. So they should be diversified to the new products. Some new spare parts should be tried and produced by them. Otherwise it is

difficult for them to continue even". For this one or two large scale industries should be started in the Kolhapur area. One of these of Public Enterprise and other should be from well-known private group such as Tata, Bajaj, etc. Such Small Scale, and others also will get the job work from these large units. For establishing such large units in this area the M.F.S. & M.L.A.S. should persuade the demand with the Central and State Government.

2) RAW MATERIALS :

General shortages created difficulty in procuring raw materials for 2 units (Unit B & Unit H). The problem could not be solved by the management alone as it was beyond its control. Therefore, government and its administrative departments should undertake the distribution of scarce raw materials such as - Pig Iron in such a way that such type of units would not become sick on account of this problem. Even with this arrangement these two units faced problems in the procurement of raw materials. Therefore, simple distribution through government agencies can not solve the problem. Delays, insufficient and irregular supplies, Shortage due theft in the transit while receiving the coal or pig iron through railways were very common draw-backs of government supplies. All this adversely affected the smooth functioning of firms. The only

way to solve this problem is either to increase raw material production or to stop giving licences to new firms using the same raw material. At the same time strict measures should be adopted to stop the thefts in the railways to avoid the transit loss of the manufacturer. There are certain gangs, which are doing such practices and the Railway Police also getting some part of it in form of "Hapta". The mal-practices of the Govt. officers should be also stopped.

3) FUNDS :

About 6 units were unable to meet working capital needs, for want of finance. The main reason is their funds have been locked up in the debtors. Delay in payment of dues from the government or from the private large scale units puts the Small Scale unit in financial difficulties. They are taking loans from private money lenders at the very high rate of interest say 36% to 60% p.a. It increases the burden on them; So the government and other large scale units should pay the dues of such Small Scale units in time to save from private borrowing at the 'Pathani rate of interest.'

4) PRICES OF RAW MATERIALS :

Another factor was the steep rise in prices of raw materials. This denotes growing inflation in the economy. Inability to control inflation adversely affected

the firms. In the case of units producing essential commodities Subsidy schemes may be evolved but with caution.

5) MARKETING :

- (1) Infringement of the reservation policy,
- (2) Unfavourable attitude of large public enterprises towards Small Scale Units in purchasing their products.
- (3) Delays in payment by Government.
- (4) Accepting commission by the Government Officers in purchasing of the material and paying the bills in time.
- (5) Sudden changes in the policies of the government (imposing business certain items) and
- (6) Brand consciousness of Indian Consumers were creating difficulties in the marketing of the Small-Scale industrial units. As far as the first 5 reasons are concerned government and its departments & officers should change their views, attitude to promote the development of Small Scale sector. Simple instructions by Ministry concerned to the public enterprises will not solve the problem. This should be made a subject of scrutiny by the public Accounts Committee. Regarding brand consciousness, Small Scale industrial units producing similar items should form an association and sell the product under the same brand name. They can advertise their

products. Under the auspices of the association, Co-operation instead of competition among Small units will improve their position in the market. They can promote even their research and development activities which improve the quality of the product thereby strengthening the competitive ability of small firms against large firms.

6) MANAGEMENT :

Incentives offered by government are attracting educated unemployed who are new to this industrial environment & management. Similarly in the area of Shivaji Udyamnagar most of the entrepreneurs are the workers in the other units and they have started their own units. Most of them are illiterate. Thus, their inexperience and **lack** of management expertise is resulting in sickness.

Therefore, adequate training at the proper time should be made available widely to all the first generation entrepreneurs.

One of the findings of this study is that there was positive correlation between management efficiency and their financial involvement in the firm. The greater financial assistance from the Government or Co-operation without corresponding contribution from the promoters' side is **inducing** sickness in the firms. Therefore, there should be proper

follow-up studies by the organisation which provide finance to the firms. The reporting system from the units should be streamlined and at the same time development of professional management in the organisations be encouraged. Removal of corruption and political intervention in sanctioning ventures is a pre-requisite for the successful existence of Small-Scale industrial units.

In brief, development of infrastructure, curtailing inflation, favourable attitude of public enterprises, strict implementation of government policies for encouraging the Small-Scale sector, training for the first generation entrepreneurs, proper follow up by financial institutions, co-operation among Small Scale units are a few remedial measures against industrial sickness in the Small Scale Sector which are recommended in the light of the research study undertaken of sick Small Scale industrial units in the industrial estate of Shivaji Udyamnagar, Kolhapur.