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CAPACITY UNDERUTILIZATION AND THE CONSTRAINTS FACED BY THE SMALL SCALE INDUSTRIES

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Importance of SSI

"Small is beautiful", is a very true and appropriate statement in the context of the small-scale industrial units. Small scale industry is an employment – oriented industry. It has an important role in poverty eradication through employment opportunities to the semi skilled and the unskilled employees in the small scale sector. The amount of investment required for providing job to one person in Rs.68166 in the large scale industrial sector. The gestation period is very short in the small scale sector and rapid and quick production is also possible. Similarly, decentralized industrial development and balanced regional industrial growth is possible by starting a number of industrial units in the small scale sector. Efficient and optimum use of the local resources becomes possible. Economic equality, industrial peace and the like could be achieved through the development of SSI units.

Statement of the Problem

It was realized that, unless the process of industrialization was well dispersed over the country as a whole and taken to the semi-urban and rural areas, no real impetus could be given to achieve faster economic development. The main objective of the development of the small-scale industries was to promote decentralization and disperse the location of the various industries to accelerate the process of economic development. The units of the small-scale industries have been visualized as the vehicle for achieving decentralized economic development. These postulates have prompted the researcher to choose the small scale sector for the present study.

In the first place, the small scale industries facilitate the tapping of the resources like capital, labour, raw materials and the like which would otherwise have remained idle and hence unutilized. They could also mobilize the rural savings and channelize them into productive ventures. Secondly, since these industries are mostly labour intensive in their character, they create more employment opportunities which is very important in an over populated and agriculturally oriented country like India which has an enormous surplus of manpower. The average investment per worker in the small scale industries is much less than that of the investment needed in the large – scale sector. Thirdly, the small scale industries broaden, strengthen and diversify the industrial structure of the country by producing wide variety of goods. Fourthly, many of the small scale industries produce articles aimed at import substitution and also meant for exports; both resulting in the saving or the fresh generation of foreign exchange. Fifthly, they serve as seed beds and nurseries for the development of the entrepreneurial and managerial talent, which are very essential for inducing speedy economic development.

This appears to a general belief that, real progress ultimately depends upon industrialization and modernization. Since India cannot raise all the capital required for the establishment of a large number of large-scale industries quickly, it is only through the units of the small scale industries that it could find a solution to the problems of poverty, ill health, illiteracy, unemployment and under employment. It is also felt that, the growth of the small scale industrial sector would ensure a better social order and social justice, since economic power would be diversified and not concentrated in the hands of a few as in the case of large-scale industries.

A few studies have already been made on the small scale industries both at the micro and the macro levels to evaluate the performance of the small scale industries in Ramanathapuram district. But these studies have not made any systematic attempt to analyze the different blocks and different industries regarding the trend and the growth rate of the SSI units in terms of the units registered, their employment, investments and production levels.

As a provider of employment opportunities, the small scale industrial units in Ramanathapuram district are next only to that of agriculture. At present, there are 5710 small scale industrial units in Ramanathapuram district providing employment opportunities to as many as 29415 persons, both directly and indirectly. In this context, an attempt has been made to study extend of the units of the small scale industries contributed to the promotion of the economic progress of the district.

Scope of the study

The present study will throw light on the pattern and level of production and investment made by the small scale industries and its economic viability which would enable other activities. The results thus obtained from the study would be useful in making suggestions to the entrepreneurs and overcome the constraints in the production of small scale industries; it would further help the manufactures to rationalize their production decisions. The study may also help the

financial institutions to evolve suitable and realistic credit policy in terms of scale of finance and recovery procedures. The problems identified in the study as reported by the entrepreneurs would help the policy makers to develop right policy package overcome the constraints faced by them. Therefore, the study has been undertaken to know various aspects of small scale industry. The present study also made on attempt to analyze the growth and trend of small scale units in Ramanathapuram district.

Objectives of the Study

The present study is set to analyse the following objectives,

i. To study the capacity underutilization of the selected SSI units.
ii. To assess the capacity utilization and the constraints encountered by the selected SSI units.

The growth of enterprises is very closely linked with the problems faced by it and the solutions found for solving the various problems. The problems differ from place to place and between one group of industry and another. The problems may relate to the marketing of their products, the raising of finance, procuring raw material, labour, power, technical and managerial guidance and the like. All these problems might ultimately affect the overall performance of an industrial unit or a group of industrial units. A good performance of the units might lead to faster growth in terms of additions to investment, employment and the like and this depends upon the capacity of utilization of the units. In other wards, the utilized capacity of an industrial unit is by itself an indication that the industrial unit is having problems in its proper functioning. Hence, an attempt has been made in this chapter to analyse capacity underutilisation of the sample SSI units and the problems encountered by them.

Capacity Underutilisation

As the capacity underutilization is the yardstick to measure the magnitude of the problems faced by the industrial units, this section attempts to analyse the problems and the reasons for the underutilization of capacity among the sample small scale units.

Distribution of the average unutilized capacity

Table 1 presents the percentage distribution of the annual average unutilized capacity among the various units classified according to the various group of industries.

Table 1 Distribution of the average unutilized capacity classified according to different industries

Annual average unutilized capacity (per cent)	Agro based industries	Forest based industries	Textile based industries	Chemical based industries	Electrical and electronic based industries	Engineering and allied based industries	Miscellaneous Types of industries	Total number of units
Below 25	3 (8.34)	2 (7.14)	16 (17.20)	1 (4.76)	6 (15.38)	3 (8.82)	9 (18.37)	40 (13.33)
25 to 50	8 (22.22)	4 (14.29)	18 (19.36)	6 (28.58)	8 (20.52)	9 (26.48)	12 (24.49)	65 (21.67)
50 to 75	17 (47.22)	19 (67.86)	44 (47.31)	10 (47.61)	20 (51.28)	18 (52.94)	23 (46.94)	151 (50.33)
75 to 100	8 (22.22)	3 (10.71)	15 (16.13)	4 (19.05)	5 (12.82)	4 (11.76)	5 (10.20)	44 (14.67)
Total number of units	36 (100)	28 (100)	93 (100)	21 (100)	39 (100)	34 (100)	49 (100)	300 (100)

Source: Compiled from the Survey Data
Figures in brackets indicate percentage to total

From the table 1 it could be seen that 50.33 percent, 21.67 per cent, 14.67 per cent and 13.33 per cent of the industry groups have an annual average unutilized capacity ranging between 50 and 75 per cent, 25 to 50 per cent between 75 to 100 per cent and below 25 per cent respectively. It could be observed that, out of the 300 units of the various industries groups, 93 units, 49 units, 39 units, 36 units, 34units, 28 units and 21 units were from the textile based units, the miscellaneous types, electrical and the electronic based industries, the agro based industries, the engineering and the allied based industries, the forest based industries and the chemical based small scale industries respectively.

About (47.22 per cent), (22.22 per cent), (22.22 per cent) and (8.34 per cent) of the units respectively of the agro based units; about (67.86 per cent), (14.29 per cent), (10.71 per cent) and (7.14 per cent)of the units respectively in the case of the forest based industries; about (52.94 per cent), (26.48per cent), (11.76 per cent) and (8.82 per cent) of the units respectively in the case of the engineering and the allied based industries; and about (46.94 per cent), (24.49 per cent), (18.37 per cent) and (10.20 per cent) of the units respectively in the case of the miscellaneous types of industries were found to have an annual average unutilized and capacity ranging between 50 and 75 per cent, 75 and 100 per cent, 25 and 50 per cent and below 25 per cent respectively.

About (47.31 per cent), (19.36 per cent), (17.20 per cent), (16.13 per cent of the units respectively in the case of the textile based industries were found to have an annual average unutilized capacity ranging between 50 and 75 per cent, 25 to 50 per cent, Below 25 per cent and 75 and 100 per cent respectively. In the case of the units of the chemical based industries about (47.61 per cent), (28.58 per cent) and (19.05 per cent) respectively had an unutilized capacity ranging between 50 and 75 per cent, 25 and 50 per cent and 75 and 100 per cent estimated on an annual average basis.

Thus, it could be seen from an overall analysis that in a majority of the units of the various industrial groups that there was an annual average unutilized capacity of more than 50 per cent. In the case of the units of the textile based industries, a large number of the units had an annual average unutilized capacity ranging between 25 and 75 per cent. In the case of the units of the chemical based industries, there are no units, which had an annual average unutilized capacity below that of 25 per cent.

1 Mean unutilized capacity

Table 2 presents the mean unutilized capacity of various industry groups.

Table 2 Mean unutilized capacity of the units classified according to different industries

Sl.No	Group of industries	Average age of the units (in year)	Mean unutilized capacity (per cent)	Total number of units
1	Agro based industries	6.9	43.18	38
2	Forest based industries	7.6	56.72	35
3	Textile based industries	8.3	43.18	38
4	Chemical based industries	6.9	59.28	70
5	Electrical and electronic based industries	4.8	39.48	40
6	Engineering and allied based industries	5.7	50.28	38
7	Miscellaneous industries	8.2	49.34	41
	All the sample units	6.7	55.31	300

Source: Compiled from the Survey data

It is apparent from the table 2 that the units of the textile based industries were the oldest (8.3 years) followed by the units of the miscellaneous based industries (8.2 years). The average age of the rest of the units in the other industries such as the forest based industries, the chemical based industries, the agro based industries and the units of the engineering and the allied based industries and the electrical and electronic based industries were 7.6 years, 6.9 years, 5.7 years and 4.8 years respectively.

It could be observed from the table 2 that, the highest percentage of the mean unutilized capacity was found among the textile based industries (59.28 per cent), followed by the forest based industries (56.72 per cent), the units of the electrical and the electronic based industries (50.28 per cent), the miscellaneous types of industries(49.34 per cent), the chemical based industries(43.18 per cent) and the agro based industries (43.18 per cent) and the units of the engineering and the allied based industries (39.48 per cent).

Thus it is clear from an overall analysis that, the textile based industries were the oldest, followed by the units of the miscellaneous types of industries. The units of the miscellaneous types of industries had suffered from the highest percentage of the mean unutilized capacity followed by the units of the forest based industries. It deserves to be observed that, the miscellaneous units, which ranked fifth in respect of the average age of the units stood first in spite of their mean unutilized capacity. The units of the forest based industries, which ranked third in respect of the average age stood second in respect of their mean unutilized capacity.

2 Reasons for the underutilisation of the productive capacities

As all the problems of the sample units were ultimately connected with their capacity underutilization, the key to solve all such major problems might be found by finding out the reasons for the under utilization of their productive capacities. Since the present study deals with units of a heterogeneous character scattered all over the district, the evaluation of the reasons is taken into account given by the respective units for the purpose of analysis. The units were

asked to rank the reasons as number one, two and three and the weighted scores were ranked as number one, two and three and so on.

Table 3 presents the reasons for capacity underutilization, as given by the units their weighted scores, their ratings and the rankings of the reasons on the basis of the weighted scores.

Table 3 Reasons for underutilization of capacity

Reasons	Units of ranking reasons			Weighted score	Rating (%)	Rank
	Number 1	Number 2	Number 3			
Scarcity of raw material	56	14	-	196	16.7	3
Competition	89	17	8	309	26.3	1
Slackness of demand	30	20	8	138	11.7	4
Storage of finances	26	8	12	106	9.0	5
Lack of full time concentration	12	8	-	52	4.4	7
Want of skilled workmen	6	20	8	66	5.6	6
Power scarcity	5	3	8	29	2.5	8
Other reasons*	76	20	12	280	23.8	2
No.of units not specifying the reasons	-	190	244	-	-	-
Total	300	300	300	1176	100	-

Source: Compiled from the survey data

*Includes product acceptability, litigation, seasonal demand, mechanical breakdowns, natural calamities, transport bottlenecks and the like.

Out of 300 units reporting underutilization, all the units had given number one reasons, 110 units had given two reasons and 56 units had given three reasons that have resulted in their capacity underutilisation; completion was ranked as the foremost reason (26.3 per cent), followed by the "other reasons"(23.8 per cent) and the "scarcity of raw materials" (16.7 per cent) problems such as "slackness of demand" (11.7 per cent and "shortage of finances" (9.0 per cent) were ranked as the fourth and fifth reasons respectively for under utilization of capacity. The other problem such as "want of skilled workmen", "lack of full time concentration" and "Power scarcity" appeared to be matters of no major concern since their ratings were found to be insignificant. The most frequently cited reason among the "other reasons" was "mechanical breakdown".

Thus competition which has been rated as the most important reason for capacity underutilization is the most important problem faced by the units followed by other reasons and the "scarcity of raw materials". Among the 110 units reporting two reasons, 56 units had mentioned "slackness of demand" and another 20 units had mentioned "want of skilled workmen" as the reason. Again 20 units had mentioned "other reasons" as the cause for the underutilization of capacity. In the case of units reporting three reasons, 12 units had mentioned "other reasons" as the cause. It could also be observed that 190 units and 244 units had not specified two reasons or three reasons respectively for their capacity underutilization.

3. Problems faced by the sample units

Having identified the causes for the underutilisation of the capacity in the previous section, the problems currently faced by the sample small scale industrial units deserve a special analysis in order to evaluate their magnitude and intensities. For this, self –assessment of the problems by the units themselves was sought to be carried out as was done in the case of finding out the reasons for the underutilization of the capacity (vide section 5.1.3) was taken into consideration. The units were asked to list the problems faced by them relating to marketing, finance, raw materials, labour, power, technical and management guidance and the like. Further they were asked to pinpoint the nature of a particular problem also. For example, if the problem was related to that of getting the raw materials, then they were asked to clearly specify whether it was a problem of scarcity, high prices, low quality, transport or something else related to it. The same technique was adopted for analyzing the other problems as well.

4. Major problems faced by the units of the SSIs

Table 4 presents the major problems encountered by the sample SSI units at the time of study classified according to the various categories of industries.

Table 4 Major problem encountered by the units at the time of study according to different industrial units

Sl. No	Group of industries	Marketing		Finance		Raw material		Labour		Power		Technical management Guidance		Total
		FP	NFP	FP	NFP	FP	NFP	FP	NFP	FP	NFP	FP	NFP	
1	Agro based industries	19 (6.33)	17 (5.67)	22 (7.33)	14 (4.67)	26 (8.67)	10 (3.33)	3 (1.00)	33 (11.00)	6 (2.00)	30 (10.00)	4 (1.33)	32 (10.67)	36 (12.00)
2	Forest based industries	17 (5.67)	11 (3.68)	15 (5.00)	13 (4.33)	20 (6.67)	8 (2.67)	9 (3.00)	19 (6.33)	12 (4.00)	16 (5.33)	9 (3.00)	19 (6.33)	28 (9.33)
3	Textile based industries	53 (17.67)	40 (13.33)	60 (20.00)	33 (11.00)	44 (14.67)	49 (16.33)	41 (13.67)	52 (17.33)	37 (12.34)	56 (18.67)	3 (1.00)	90 (30.00)	93 (31.00)
4	Chemical based industries	12 (4.00)	9 (3.00)	15 (5.00)	6 (2.00)	11 (3.66)	10 (3.33)	7 (2.33)	14 (4.67)	7 (2.33)	14 (4.67)	12 (4.00)	9 (3.00)	21 (7.00)
5	Electrical and electronic based industries	25 (8.33)	14 (4.67)	26 (8.67)	13 (4.34)	23 (7.67)	16 (5.33)	14 (4.67)	25 (8.33)	29 (9.67)	10 (3.33)	23 (7.67)	16 (5.34)	39 (13.00)
6	Engineering and allied based industries	19 (6.33)	15 (5.00)	16 (5.33)	18 (6.00)	17 (5.67)	17 (5.67)	11 (3.67)	23 (7.67)	18 (6.00)	16 (5.33)	21 (7.00)	13 (4.33)	34 (11.34)
7	Miscellaneous industries	29 (9.67)	20 (6.67)	28 (9.33)	21 (7.00)	34 (11.33)	15 (5.00)	18 (6.00)	31 (10.33)	22 (7.33)	27 (9.00)	15 (5.00)	34 (11.33)	49 (16.33)
	Total number of units	174 (58.00)	126 (42.00)	182 (60.66)	118 (39.34)	175 (58.34)	125 (41.66)	103 (34.34)	197 (65.66)	131 (43.67)	169 (56.33)	87 (29.00)	213 (71.00)	300 (100)

Source: Compiled from the Survey Data

Figures in brackets indicate percentage to total

As could be adduced from the table 4 out of the sample units studied (31.00 per cent), (16.33 per cent), (13.00 per cent), (11.34 per cent), (7.00 per cent), (12.00 per cent) and (9.33 per cent) of the industrial units respectively were facing problems under the textile based, the miscellaneous based, the electrical and the electronic based, the engineering and the allied based, the chemical based, the agro based and the forest based units of industries respectively.

Of the 126 (42.00 per cent) units that were not having the problem of marketing, 40 units (13.33 per cent) were under the textile based industries and 20 units (6.67 per cent) were under the miscellaneous types of industries. Among the 174 units (58.00 per cent), which were having, the problem of marketing 29 units (9.67 per cent), 53units (17.67 per cent) and 19 units (6.33 per cent) respectively belonged to the miscellaneous types of industries, the textile based industries and the agro based industries respectively.

In the case of the 118 units (39.34 per cent) which were not facing the problem of finance 21units (7.00 per cent), 33units (11.00 per cent) and 14 units (4.67 per cent) were from the miscellaneous types of industries, the textile based industries and the agro based industries respectively. Out of 182 units (60.66 per cent) of industry which had finance related problems, 60 units (20.00 per cent), 28 units(9.33 per cent) and 22 units (7.33 per cent) were from the units of the textile based, the miscellaneous types of industries and the units of the agro based industries respectively.

In the case of the, 125units (41.66 per cent) which were not facing any problem related to procurement of raw materials, 49 units (16.33 per cent) and 15 units (5.00 per cent) were from the textile based and the miscellaneous types of industries respectively. Out of 175 units(58.34 per cent), which had problems, related to raw materials 44 units (14.67per cent), 34units (11.33 per cent) and 26 units (8.67 per cent) of the units respectively belonged to the textile based industries, the miscellaneous based industries and the units of the agro based industries.

Among the 197units (65.66 per cent), which did not have any problem related to labour, 52 units (17.33 per cent) and 31 units (10.33per cent) of the units were from the miscellaneous group of industries and the textile based industries respectively. Among the 103units(34.34 per cent), which had, problems related to labour 41 units (13.67) and 18 units (6.00 per cent) of the units were from the textile based and the miscellaneous types of industries respectively.

In the case of the 169 sample units (56.33 per cent) which did not have any problem, related to power supply 27 units (9.00 per cent), 56units(18.67 per cent) and 30units (10.00per cent) belonged to the miscellaneous types of industries, the textile based and the units of the agro based industries respectively. Among the 131units (43.67 per cent), which had, problems related to power supply 37units (12.34) and 22 units (7.33 per cent) of the units were from the textile based and the miscellaneous types of industries respectively.

In the case of the 213 sample units (71.00 per cent) which did not have any problem, related to technical management guidance 34 units (11.33 per cent), 90units (30.00 per cent) and 32units (10.67per cent) belonged to the miscellaneous types of industries, the textile based and the units of the agro based industries respectively. Among the 87units (29.00 per cent), which had, problems related to technical management guidance 3units (1.00) and 15units (5.00 per cent) of the units were from the textile based and the miscellaneous types of industries respectively

According to the various categories of the units of the industry groups facing problems, it could be safely concluded that the majority of the small scale industrial units under the miscellaneous groups had faced the problems related to marketing, finance, raw materials, labour, power supply and getting technical and managerial guidance. It would be of much interest to note that the units of the textile based industries had faced major problems related to labour and getting technical and managerial guidance.

Problems of marketing

The distribution of the sample units had reported marketing as the number one problem and the number of the sample units which had reported the marketing problem as the second important problem is presented in table 5

Table 5 Problems of marketing encountered at the time of study

Sl.NO	Problem	Number of units facing the problem of marketing	
		Number one	Number two
1	Competition from small units	81	6
2	Competition from large units	30	10
3	Slackness in demand	12	2
4	Other problems*	51	3
5	Number of units not reporting any problem	-	153
	Total	174	174

Source: Compiled from the survey data

*includes Transport bottlenecks and seasonal demand fluctuations

From the table 5, it could be seen realistically that 174 units of various industries had specified marketing as the foremost number one difficulty and 21 units of various industries had mentioned marketing as the second important difficulty. For about 50 per cent of the units, which had faced the marketing problem, the foremost number one difficulty was competition from other small scale units. In addition, 30 units had reported that they had to compete with other large scale units. The foremost number one difficulty was facing “other problems” such as transport bottlenecks and seasonal demand fluctuations as reported by 51 units various industries. Slackness in demand was reported as the foremost number one difficulty by 12 units of the various categories of industries.

Of the units reporting a second difficulty, 6 units had complained of competition from the other small scale units and 10 units had supported competition from the large scale units. Slackness in demand and ‘other problems’ were

reported as the second major difficulty by 2 units and 3 units respectively. As many as 153 units did not specify any difficulty as the second important difficulty.

Thus, it could be concluded that 50 per cent of the sample units had reported that the major problem in marketing was the completion they had to face from the small and the large units, followed by other problems such as 'bottlenecks and seasonal demand fluctuations'.

Problems of marketing encountered by the sample units as classified according to the various categories of industries.

Table 6 presents the problems of marketing encountered by the sample units classified according to the various categories of industries.

Table 6 Problems of marketing encountered by the industry groups

Sl.No	Group of industries	Number one difficulty				Total number of units
		Competition from small units	Competition from large units	Slackness in demand	Other problems	
1	Agro based industries	10 (5.75)	1 (0.57)	1 (0.57)	7 (4.02)	19 (10.91)
2	Forest based Industries	5 (2.88)	2 (1.15)	1 (0.57)	9 (5.17)	17 (9.77)
3	Chemical based industries	27 (15.51)	15 (8.62)	3 (1.73)	8 (4.60)	53 (30.46)
4	Textile based industries	8 (4.60)	1 (0.57)	1 (0.57)	2 (1.15)	12 (6.89)
5	Electrical and electronic based industries	7 (4.02)	6 (3.46)	2 (1.15)	10 (5.75)	25 (14.38)
6	Engineering and allied based industries	9 (5.17)	1 (0.57)	2 (1.15)	7 (4.02)	19 (10.91)
7	Miscellaneous industries	15 (8.62)	4 (2.30)	2 (1.15)	8 (4.61)	29 (16.68)
	Total number of units	81 (46.55)	30 (17.24)	12 (6.89)	51 (29.32)	174 (100)

Source: Compiled from survey data

Figures in brackets represent percentage to total

In the case of problems related to marketing, it could be seen from table 6 that among the 174 total number of units, 29 units, 19 units, 53 units, 17 units, 12 units, 19 units and 25 units respectively had faced the problems related to marketing in the units belonging to the miscellaneous group, the agro based group, the textile based group, the forest based group, the chemical based group, the engineering and the allied based group and the electrical and the electronic based group of industries respectively.

Competitions from small units were found to be significant for the electrical and electronic based industries. It was found to be significant for the miscellaneous types of industries15 units (8.62 per cent), the agro based industries 10units(5.75 per cent), the textile based industries27 units (15.51per cent), the forest based industries 5 units(2.88 per cent), the chemical based industries 8 units(6.60 per cent) and the engineering and the allied based industries 9 units(5.17 per cent) .But the major problem of competition from small units 81units(46.55 per cent) was reported by the units of all the various categories of industries.

Similarly, competition from the large scale units which was reported by 30unitss (17.24 per cent) of the sample units was found to be highly significant in the units of the miscellaneous types of industries4 units(2.30 per cent), followed by the units of the textile based industries1unit (0.57 per cent), the forest based industries2 units (2.15 per cent), the agro based industries1 units(0.57per cent), the engineering and allied industries units(0.57 per cent), the chemical based industries15 units(8.62 per cent) and the units of the electrical and electronic based industries 6 units(3.46 per cent).

In the case of 'Slackness in demand' which was reported by 12 (6.89 per cent) of the units that had reported marketing problems, it was found to be significant for the units of the agro based industries, the engineering and the allied based industries, forest based, the electrical and the electronic based industries. But, it was found to be less significant for the units of the textile industries1 units (0.57 per cent), the miscellaneous industries 2 units (1.15 per cent), the chemical industries3 units(1.73 per cent) and the forest based industries1 units(0.57 per cent).

In the case of the second major problem namely 'other problems' which worked out to 51.00 (29.32 pr cent) of the units that had reported problems related to marketing it was found to be significant for the miscellaneous industries 8units (4.61per cent), the agro based industries7 units(4.02 per cent), textile based industries2 units (1.15per cent), the forest based industries9 units(5.17 per cent), the chemical based industries 8units (4.60 per cent), the engineering and allied industries7units (4.02 per cent) and the electrical and the electronic based industries 10units (5.75 per cent).

Therefore, the most important difficulty in respect of marketing was found to be competition from the small units, followed by the other problems such as transport bottlenecks and the seasonal demand. These difficulties were found to be highly significant in the case of the units of the miscellaneous industries followed by the units of the agro based industries.

Finance

The most important factor for the successful and efficient working of an enterprise is finance .The entrepreneurs can mobilize finance from their own funds as also from other financial institutions. Table 7 highlights the problem of finance encountered by the units at the time of the study.

Table 7 Problem of finance encountered by the units during the study period

Sl.No	Problem	Number of units for whom it is was difficulties	
		Number one	Number two
1	Storage of working capital	61	7
2	Storage of fixed capital	-	3
3	High rates of interest for loans	22	13
4	Red- tapism of government agencies	-	12
5	Meagre assistance from government agencies	69	44
6	Other difficulties*	40	28
7	Number of units not specifying the problems	-	74
	Total	182	182

Source: Compiled from the survey data

*Includes credit sales, delayed settlement of accounts and the like

From the table 7, it could be seen that 182 units had specified the problems of fianncé as the foremost number one difficulty and 108 units had mentioned problem of finance as the second important difficulty. As many as 69 units had mentioned 'meagre assistance from the government agencies' as the foremost number one difficulty and nearly 44 units had mentioned that reason as the second important difficulty.

It could be seen that as many as 61 units had reported that shortage of working capital was the foremost number one difficulty and 7 units had mentioned it as the second important difficulty .As many as 40 units had complained of other difficulties such as credit sales, delayed settlement of accounts and the like, as the foremost number one difficulty and 28 units had mentioned it as the second important difficulty. The problem of high rates of interest on borrowed funds was the foremost number one problem for nearly 22 sample units and it was the second important problem for 13 sample units .It could also be observed that the problem of shortage of fixed capital and red- tapism of government agencies have been mentioned as the second important problem by 3 units and 12 units respectively. They have not been considered as the foremost problems by any of the sample units.

Thus, it clear those above 50 per cent of the units have mentioned the problem of meagre assistance from the government agencies and the shortage of working capital as the major related problems of finance encountered by the units during the period of study.

Problems of finance encountered by the sample units during the study period classified according to different categories of industries

Table 8 presents the distribution the problems of related to finance encountered by the units of the various groups of industries during the period of study.

Table 8 Problems of finance encountered during the study period by the sample units of various groups of industries

Sl.No	Group of industries	Number of difficulties				Total number of units
		Shortage of working capital	High rate of interest	Meagre assistance	Other problems	
1	Agro based industries	7 (3.85)	-	3 (1.64)	12 (6.60)	22 (12.09)
2	Forest based industries	6 (3.30)	2 (1.10)	2 (1.10)	5 (2.74)	15 (8.24)
3	Chemical based industries	4 (2.20)	2 (1.10)	6 (3.30)	3 (1.64)	15 (8.24)
4	Textile based industries	20 (10.99)	11 (6.04)	22 (12.09)	7 (3.85)	60 (32.97)
5	Electrical and electronic based industries	11 (6.04)	3 (1.64)	8 (4.40)	4 (2.20)	26 (14.28)
6	Engineering and allied based industries	5 (2.74)	-	9 (4.95)	2 (1.10)	16 (8.79)
7	Miscellaneous industries	8 (4.40)	4 (2.20)	9 (4.94)	7 (3.85)	28 (15.39)
	Total number of units	61 (33.52)	22 (12.08)	59 (32.42)	40 (21.98)	182 (100)

Source: Compiled from the survey data

Figures in brackets represent percentage to total

From the table 8 it could be observed that in the case of problems related to finance, 28 units of the miscellaneous types of industries, 60 units of the textile based industries, 26 units of electrical and electronic based industries, 15 units of the chemical based industries, 16 units of the engineering and allied based industries, 15 units of the forest based industries and 22 units of the agro based industries have reported problems related to finance.

The problem of shortage of working capital was reported by 61 units (33.52 per cent) and it was significant in the case of the units of miscellaneous types of industries (2.20 per cent), textile based industries (6.04 per cent), the electrical and the electronic based industries (1.64 per cent) and the forest based industries (1.10 per cent).

The problem of high rate of interest on borrowed funds was reported by 22sample units (12.08 per cent) and it was not significant for the agro based, the engineering and the allied based industries and the units of the forest based industries. It was found to be significant for the units of the miscellaneous industries (2.20per cent), the textile based industries (6.04 per cent), the chemical based industries (1.10 per cent) and the units of the electrical and electronic based industries (1.04 per cent).

The problem of meagre assistance was reported by 59 sample units (32.42 per cent) and was reported by the units in all the various categories of the entire industrial group. It was significant for 9 units of the miscellaneous types of industries (4.94 per cent), 22 units of the textile based industries (12.09 per cent), 9 units of the engineering based industries (4.95 per cent), 6 units of the chemical based industries (3.30 per cent), 3 units of the agro based industries (1.64 per cent) and 2 units of the forest based industries (1.10per cent)

Other problem which included credit sales, delayed settlement of accounts and the like constitute (21.98 per cent) and it is significant for miscellaneous industries (3.85 per cent), textile based industries (3.85 per cent), forest based industries (2.74 per cent), agro based industries (6.60 per cent), electrical and electronic based industries (2.20 per cent), textile industries (3.85 per cent) and the engineering and the allied based industries (1.10 per cent).

Thus it is clear from the overall data that the foremost major difficulty faced by the units of the various categories of all the industrial groups was meagre assistance followed by shortage of capital. These problems were found to be highly significant for the units of the miscellaneous types of industries followed by the units of the textile based industries.

The financial assistance received form other institutions was found to be very meagre and it was felt more in the case of units belonging to miscellaneous industries. Working capital was found to be the second important major problem. Many entrepreneurs have diverted funds from the working capital to that of fixed assets. This had resulted in a severe shortage of funds in working capital. Improper credit collection and sometimes short term borrowings at high rates of interest had resulted in a credit squeeze. The rate of interest was found to be very high to India when compared to the rates of interest that prevailed in other countries.

Initial capital

The initial capital is very essential for that of starting and industry .It is usually the funds at the disposal of the entrepreneurs for establishing the enterprise in the firs instance. Table 9 analyses the major sources of initial capital of the sample SSI units.

Table 9 Major sources of initial capital

Sl.No	Major sources	Number of units	Percentage
1	Income form Agriculture	33	11.00
2	Income from trade	11	3.67
3	Income from manufacture	14	4.67
4	Saving from salary	17	5.67
5	Borrowing friends and relatives	19	6.33
6	Other sources*	206	68.66
	Total	300	100.00

Source: Compiled from the survey data

* Includes Borrowing from wife, borrowing from commercial institutions Sales proceeds of agricultural land and professional earnings

It could be seen understood from the table 9 that nearly 68.66 per cent of the units of the various categories of the industrial groups had entered the industry by using their incomes from other sources such as borrowing from wife, sale proceeds of their agriculture land and from their professional earnings.

Of the remaining units 11.00 per cent, 6.33 per cent, 5.67 per cent, 4.67 per cent and 3.67 per cent respectively of the sample units had brought their initial capital from agricultural incomes, borrowing from friends and relatives, from savings, income from manufacturing and incomes from trade respectively.

Thus it could be seen that a majority of the units in the various categories of industrial groups had entered the industry bringing in their own income through borrowing from wife, trough sale proceeds of agricultural land through professional earnings.

Term loan

The shortage of funds can be compensated by the SSI units by arising term loans from various lending financial institutions. The various sources of raising term loans by the sample units have been analyzed and presented in table 10

Table 10 Sources of term loans

Sl.No	Sources	Number of units	Percentage
1	Tamil Nadu Industrial Investment Corporation (TIIC)	148	49.33
2	Commercial Banks	93	31.00
3	Small Industries Development Bank of India(SIDBI)	59	29.67
	Total	300	100.00

Source: Compiled from the survey data

It could be seen from the table 10, that the term loans have been raised by 148 units from the Tamil Nadu Industrial Investment Corporation (49.33 per cent).Besides, the Commercial Banks (31.00 per cent) and the SIDBI (29.67 per cent) have also proved to be the other important sources for getting term loans and 93 sample units have borrowed from the commercial banks and 59 sample units from the Small Industries Development Bank of India (SIDBI).

Most of the sample units have availed of the term loans from Tamil Nadu Industrial Investment Corporation (TIIC) has been more beneficial and accessible to the sample units of the various categories of the small scale industrial groups in various fields in providing term loan.

Working capital

The deficit in the working capital could be bridged by borrowing from the commercial banks. The sample SSI units have borrowed from the commercial banks and the proportion of the working capital raised by the borrowings from the commercial banks is presented in table 11.

Table 11 Proportion of working capital raised from the commercial banks

Sl.No	Proportion	Number of units	Percentage
1	Nil	29	9.67
2	Upto 50 per cent	32	10.67
3	50 to 75 per cent	57	19.00
4	75 to 90 per cent	154	51.33
5	90 to 100 per cent	19	6.33
6	100 per cent	9	3.00
	Total	300	100.00

Source : Compile survey data

From table 11 it could be seen that 51.33 per cent of the sample industrial units had raised their working capital from the commercial banks to the extent of 75 to 90 per cent of their working capital;19.00 per cent of the sample units had borrowed to the extent of 50 to 75 per cent, 10.67 per cent in the proportion of the units to the extent of up to 50 per cent , 6.33 per cent up to the level of 90 to 100 per cent and 3.00 per cent of the sample units had borrowed 100 per cent of their working capital requirements from the commercial banks. Only 9.67 per cent of the sample units had not borrowed their working capital from the commercial banks. It is clear from the analysis that the highest percentage (51.33 per cent) of the sample SSI units had raised 75 to 90 per cent of their working capital by borrowings from the commercial banks.

Raw materials

The major problem of procuring the required raw material arises due to scarcity, high and uncertain prices, low quality, transport and seasonal supply of the raw materials.

Table 12 presents the problems related to the raw material supplies as encountered by the sample SSI units during the period of study.

Table 12 Problems of raw materials encountered at present

Sl.No	Problems	Number of entrepreneurs	
		Number one	Number two
1	Scarcity	79	17
2	High prices	41	11
3	Low quality	19	8
4	Transport	9	3
5	Other problems *	27	6
6	No of the entrepreneur not specifying the problem	-	130
	Total	**175**	**175**

Source: Compiled from the survey data

In the case of problems related to the availability of raw material, it was found from the table 12 that 175 sample units had experienced it as number two problems. Among the 175 units, which had stated that there was the problem of raw material faced by them, 7 9 units had stated that scarcity was the foremost number one problem related to raw material. Apart from scarcity, 41 units, 27 units, 19 units, 9 units respectively have mentioned high prices, other problems such as uncertain prices and the seasonal supply of raw materials, low quality and transport as the problems related to the availability of raw materials.

Thus, it could be seen that nearly 50 per cent of the SSI sample units had mentioned that scarcity was the foremost difficulty in getting the raw materials encountered by them during the survey period .It was also found that 130 units had not specified any difficulty in regard to the availability of the raw material. Hence the major problem encountered by the sample units related to raw material were found to be scarcity and high prices generally caused by such scarcity conditions.

Problems of raw materials encountered at the time of study by the units of the various categories of industries

Table 13 shows the problems of raw materials encountered at present by the SSI units.

Table 13 Problems of raw materials encountered at the time of study by sample units of the various categories of industries

Sl.No	Group of industries	Number one difficulty					Total number of units
		Scarcity	High price	Low quality	Transport	Other problems	
1	Agro based industries	11 (6.29)	9 (5.14)	2 (1.15)	0 (0)	4 (2.29)	26 (14.87)
2	Forest based industries	10 (5.71)	4 (2.29)	1 (0.57)	1 (0.57)	4 (2.29)	20 (11.43)
3	Chemical based industries	15 (8.57)	9 (5.14)	7 (4.00)	2 (1.15)	11 (6.29)	44 (25.15)
4	Textile based industries	3 (1.71)	3 (1.71)	2 (1.15)	2 (1.15)	1 (0.57)	11 (6.29)
5	Electrical and electronic based industries	12 (6.85)	3 (1.71)	3 (1.71)	2 (1.15)	3 (1.71)	23 (13.13)
6	Engineering and allied based industries	8 (4.57)	5 (2.85)	2 (1.15)	1 (0.57)	1 (0.57)	17 (9.71)
7	Miscellaneous industries	20 (11.42)	8 (4.57)	2 (1.15)	1 (0.57)	3 (1.71)	34 (19.42)
	Total number of units	79 (45.12)	41 (23.41)	19 (10.88)	9 (5.16)	27 (15.43)	175 (100)

Source: Compiled from the survey data

From the table 13, it could be observed that in the case of the problems related to raw materials (19.42 per cent), (6.29 per cent), (14.87 per cent), (13.13 per cent), (25.15 per cent), (9.71 per cent) and (11.43 per cent) of the units belonging to the miscellaneous, the textile based, the agro based, the electrical based, the chemical based, the engineering based and the forest based industries respectively had experienced problems related to raw materials.

The problem of scarcity (45.12 per cent) was found to be the major problem related to that of getting the raw material. The problem of scarcity was found to be significant in the case of the units of the miscellaneous types of industries (11.42 per cent), the agro based (6.29 per cent), the textile based (1.71 per cent), the engineering based (4.57 per cent) units, the electrical and electronic based (6.85 per cent) units, the chemical based (8.57 per cent) units and the forest based industries (5.71 per cent).

The problem of high prices was reported by 31 units constituted 19.2 per cent and it was found to be significant in the case of the units of the miscellaneous types of industries (6.13 per cent) units, the chemical based(3.68 per cent), the electrical based(3.07 per cent)units, the textile based(2.45 per cent) units, the engineering and allied based (1.84 per cent) units, the agro based (1.23 per cent) units and the forest based industries (0.61 per cent).

The next problem was found to be ‘other problems’ (15.96 per cent) such as uncertain prices and seasonal supply of raw materials which was experienced by 26 units. It was found to be significant in the case of the units of the miscellaneous industries (4.91 per cent) units, the textile based industries (2.45 per cent) units, the electrical and electronic based (2.45 per cent) units, the agro based (1.84 per cent) units and the forest based (1.84 per cent) units.

The case of problem of ‘low quality’ was reported by 15 sample units (9.20 per cent) and it was found to be significant in the case of the textile based four units (2.45 per cent), the electrical and electronic based 3 units (1.84 per cent), the forest based 2 units (1.23 per cent), the chemical based 2 units (1.23 per cent)and the miscellaneous types of 2 units (1.23 per cent)and it was found to be insignificant in the case of the units of the agro based industries and the engineering and allied industries. In the case of problems related to transport, it was significant for the miscellaneous types of industries (1.84 per cent) alone and was found to be insignificant for the rest of the sample SSI units.

Thus, it could be inferred from an analysis of the overall data, that the problem of scarcity, high prices, transport and other problems such as those of uncertain prices and seasonal supply of the raw materials were the major problems.

The raw material related problem was the foremost number one problem for the units of the miscellaneous types of industries and the problem of 'low quality' was the foremost number one problem for the sample units of the textile based industries.

Labour

Table 14 highlights the labour related problems encountered by the sample SSI units at the time of the study. The major labour problems encountered by the sample units were 'want of skilled labour', 'unionization' of grievances workers 'turnover' and 'absenteeism'.

Table 14 Labour problems encountered by the sample units

Sl.No	Problems	Number of units	
		Number one	Number two
1	Want of skilled labour	56	8
2	Unionization of grievances	29	5
3	Low turnover	7	3
4	Absenteeism	11	5
5	No of the entrepreneur not specifying the problem	-	82
	Total	103	103

Source : Compile from the survey data

From the table 14 it could be observed that 103 units sample units had mentioned labour problem as the foremost number one problem and 21units had mentioned it as the second important problem. 'Want of skilled labour' was the foremost number one problem for 56 sample units.

Among the rest, 29 units, had mentioned unionization of activities, 11units had mentioned absenteeism and 7 units had mentioned low turnover as the foremost number one labour problem.

Thus, it could be seen that more than 50 per cent of the 105 units which reported had pointed out that 'want of skilled labour' was the foremost number one labour problem. It should also be noted that 82 sample units did not specify any problem related to labour. Unionization of the labour activities was found to be the second major problem. It should also be noted that many SSI units did not have trade unions. There is a common perception, that forming a union itself might lead to labour problems. The units that have formed trade unions consider this formation itself as a potential problem for them. The low turnover of the skilled workers disrupts the efficiency of the day-to-day operations of the SSI units and raises it to the level of making it as a labour problem.

Power supply

Power supply was another major problem, which was encountered by the sample SSI units during the study period. Details about the sample units reporting problems of power supply are presented in table 15.

Table 15 Problem of power supply encountered by the sample units

Sl.No	Problems	Number of units	Percentage
1	High cost of power	31	21.67
2	Uncertainty in supply	51	38.93
3	Scarcity of supply	40	30.53
4	Other problems *	9	6.87
	Total	131	100.00

Source : Compiled from the survey data

From the table 15, it could be observed that 31 sample units (21.67 per cent) the sample had reported about the high cost of power and 51 units(38.93per cent) had reported about the uncertainty in power supply, while 40 sample units (30.53 per cent) had reported about the scarcity in the supply of power. Out of the 131 sample units which had reported about problems related to power supply, 9 units (6.87 per cent) had reported about 'other problems' which included the difficulties experienced by them in getting additional power supply, the uneconomical nature of installing a new generator and the problem of including the product produced with the help of power as chargeable under excise duty.

Thus, it could be understood that the major problem faced by the sample units was the high cost of the power supply followed by the uncertainty of the supply of power.

Technical and managerial guidance

Table 16 gives the various reasons mentioned by the sample SSI units for not utilizing the technical and managerial guidance offered by the officials of the small industries development.

Table 16 Reasons for not utilizing the technical and managerial guidance

Sl.No	Reasons	Number of units	Percentage
1	Expensive	18	20.69
2	Inconvenient	45	51.72
3	Not useful	21	24.14
4	Not aware	3	3.45
	Total	87	100.00

Source : Compiled from the survey data

It could be observed from the table 16 that 87 out of the 45 reporting units (51.72 per cent) had found the technical and managerial guidance offered as inconvenience. 21 reporting sample units (24.14 per cent) had found the guidance as not very useful in practice. 18 sample units (20.69 per cent) had found the guidance as very expensive while 3 of the sample units (3.45 per cent) were not at all aware of the facility available for them.

Thus it could be seen that nearly 50 per cent of the 57 reporting units had stated 'inconvenience' as the most important reason for their not utilizing the technical and managerial guidance. On a further analysis, it was found that the units had heard about the programmes for the beginners only and they would welcome specially designed programmes to suit their industrial requirements.

Summary

This paper has analysed the various problems faced by the units of the small scale industrial units and also the reasons for the underutilization of their full capacities .It was found that the annual average unutilized capacity was around 50 to 75 percent and the highest mean unutilized capacity was found among units of the textile based industries followed by the miscellaneous units of industries. The reason for the underutilization of capacity was due to the competition among the various units, followed by other reasons and also due to the scarcity of the availability of raw material.

The major problems faced by the small scale industrial units are found to be marketing difficulties, finance and non-availability of raw materials. The miscellaneous types of units were the most affected industrial group. About 174 units had faced the problem of competition from the small scale units and other problems such as the transport bottlenecks and the seasonal demand for their products. About 182 units had faced the problem of getting meager assistance from the various government agencies and the shortage of working capital finances and 175 units has faced the problems of scarcity in getting raw materials, followed by the high price and other problems such as uncertain prices and seasonal supply of the raw materials. It was also observed that around 103 units had faced the problem of non –availability of skilled labour and unionization of labour activities and around 131 units had faced the problem of high cost and the uncertainty in respect of power supply.

In the case of finance, the major sources of raising the initial capital were through borrowings from their wives, the sale proceeds of their agricultural land and their professional earnings. The major source of term loan was found to be the Tamil Nadu Industrial Investment Corporation (TIIC). It was observed that around 51.33 per cent of the units had obtained 75 to 90 per cent of their working capital from the commercial banks.

The small scale industrial units had faced the problem of getting technical and managerial guidance because of the inconvenience caused and also due to the fact that was not useful.