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Capacity Utilization of SSI in DK and Udipi Districts

By Umesh Maiya and Bharath V.*

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 13 million today. The small-scale industries made significant contribution to the growth of employment during the last six decades. Over the year's employment in small scale sector rose by 5 lakhs in 1947 to 3 crores today. The growth rate has been higher than in large industries which are around 5 percent per annum. 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, and legal advice etc.

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 per cent, as revealed by surveys. Thus many of them do not plan to undertake a fresh infusion of capital. Thus, there

are large numbers 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

This empirical study examined the working of Small-Scale units, measured and assessed capacity utilization and projected the disastrous consequences of under-utilization of capacity. It is also observed that every project is a success on paper and in reality hardly 20 percent of the projects register success. This trend has created a social and economical insecurity among the owners of SS units to bring about a change.

Fuller utilization of production facility will ensure higher production at a maximum scale of economics to the entrepreneur.

products covering the operational costs and incur losses. Disturbed labour relations have further aggravated their difficulties. (CII-survey 2008)

According to the publication of Small Industries Association, Dakshina Kannada District (2008) at Dakshina Kannada and Udipi districts of Karnataka more than 80 per cent of the industrial units in the

various industrial estates of the two districts are not operating smoothly.

A few years back State Bank of India who is the pioneers in the field of financing Small Scale Industrial units got the subject studied in detail by appointing a study group that gave the noted "Varsheny 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 has resulted in continuous deterioration in the capacity utilization making most of the units to loose on a continuing basis.

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 landing in sickness have become a grave concern to the Government. This situation is attributable to the

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complex and awesome problems arising in the areas of finance, production, marketing, labour, which has 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.

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 appears 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 on the 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. The present study aims at examining the capacity utilization of selected small-scale units in the Dakshina Kannada and Udupi Districts.

Some studies have been undertaken on various programmes and incentives to small industries promotional activities of DICS (District Industrial centers) and problems associated with the implementation of the promotional institutions and the problems faced by the entrepreneurs. Small

Industries Extension Training (SIET) in its study on Hire purchase has observed that the growth in the number of units and the expansion of capital intensity alone may not create the necessary impetus to the growth unless considerable productivity changes have also been effected through fuller capacity utilization. Most of the units utilizing full capacity have been either big export-oriented industries or local-need-based activities.

According to the information collected from Small Scale Industrial Centers, Government agencies for small-scale industries and some of the associations of the small-scale industries no in-depth studies have been made till now on the capacity utilization of small-scale industries. Under utilization of capacity may be considered as one of the problems, but neither the entrepreneurs nor the concerned authorities have taken up this issue very seriously.

Business Outlook survey conducted by Confederation of Indian Industries (CII) based on preliminary analysis of responses from 352 small and medium members reveals a dull scenario. However, the small and medium industry foresees an improvement in the business situation in the coming years and expects an increase in turnover, production, profit margins, capacity utilization and exports.

The CII survey covers a broad spectrum of industry groups and activities of the small and medium industry members all over the country. The survey relates to the actual performance of industry. From the survey report, one can understand that any of the internal or external problems of industry ultimately affects the production capacity.

Significance of the study

Several research studies have made an earnest attempt to identify the reasons for capacity under utilization 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 of Small-Scale Industries: A Study with reference to Dakshina Kannada and Udupi Districts". 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.

Objectives

- a. To examine the relationship between and location and capacity utilization
- b. To examine the relationship between the age of the unit and capacity utilization.
- c. To examine the relationship between the Forms of organization and capacity utilization.
- d. To examine the relationship between the background of the entrepreneur and capacity utilization.
- e. To examine the relationship between the investment and capacity utilization.

Research Question

1. What is the present level of capacity utilization of small scale industries which are located in and around Dakshina Kannada and Udupi Districts?

Table-2 Capacity Utilization and Location

Capacity Utilization in percentage		Industrial estate	Commercial Area	Location Residential area	Remote area	Rural area	Total
	Count	4	3	3	0	3	13
0-25	%within Loc	3.6%	5.1%	23.1%	.0%	7.7%	5.2%
26-50	Count	30	11	5	4	6	56
	% within Loc	26.8%	18.6%	38.5%	14.8%	15.4%	22.4%
	Count	50	28	2	14	13	107
51-75	%within Loc	44.6%	47.5%	15.4%	51.9%	33.3%	42.8%
76-100	Count	28	17	3	9	17	74
	% within Loc	25.0%	28.8%	23.1%	33.3%	43.6%	29.6%
Total	Count	112	59	13	27	39	250
	% within Loc	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

No significance association, Fisher's Exact Test P=0.055

Table-3 – Capacity Utilization and Age of the units

Capacity Utilization in percentage		Age of the Units in years					Total
		Up to 10	11 to 20	21-30	31-40	41-50	
0-25	Count	6	5	1	1	0	13
	% within Age of the units	12.0%	6.6%	1.6%	2.4%	.0%	5.2%
26-50	Count	17	17	8	8	6	56
	% within Age of the units	34.0%	22.4%	12.7%	19.5%	30.0%	22.4%
51-75	Count	19	31	32	18	7	107
	% within Age of the units	38.0%	40.8%	50.8%	43.9%	35.0%	42.8%
76-100	Count	8	23	22	14	7	74
	% within Age of the units	16.0%	30.3%	34.9%	34.1%	35.0%	29.6%
Total	Count	50	76	63	41	20	250
	% within Age of the units	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

No significance association, Fisher's Exact Test P=0.077

Source: Field survey data

Table-1
Sample Size

Category of Industries	Nature of Industries	Sample Units	Percentage
1	A Food, Beverages and Fisheries	35	14
2	B Garments	25	10
3	C Wood and Wood Products	20	8
4	D Printing and Stationery	20	8
5	E Leather and Leather Products	15	6
6	F Rubber and Plastics	25	10
7	G Chemical and Chemical Products	25	10
8	H Glass, ceramics and tiles	25	10
9	I Metal Products	30	12
10	J General Engineering, MachineryParts, Electrical Products	30	12
Total		250	100

Research Methodology and Sample Design

The study aims at examining the status of small industries, industrial policy and capacity utilization of small industries and the reasons for not utilizing it to the full extent. Capacity utilization has been examined taking into account the location of the unit, industry group to which it belonged, 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 and adjustments are made according to the requirements. To conduct the sample survey through schedules/questionnaires, 350 sample

units were selected on the basis of convenience from two cities.

Further sample units were classified based on their nature of products/activities. 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 analyzed through both descriptive and inferential statistics, chi-square is used to interpret and to analyze the data. Statistical Package for Social science version 11.5 was used to summarize and analyze the data.

Besides the primary data, necessary information and data are collected through secondary sources like periodicals, reports, Government Publications, publications of industrial association, Research organization, industrial directory and relevant company document. Rele-

vant information are also collected from District Industrial Centers, Small and Medium Industries Association of Dakshina Kannada (Mangalore) and Udupi districts.

Scope and Limitations of the Study

Scope: Present study is confined to investigate the existing Capacity utilization of small scale industries of Dakshina Kannada and Udupi districts

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 and instead they should be recognized as opportunities for future research in this domain.

Findings

The capacity utilization of production, 13 units (5%) of the total sample are utilizing up to 25 % of the installed capacity. 56 units (23%) are utilizing more than 25 % and up to 50 % of their installed capacity. 107 units (43%) of the sample units are utilizing more than 50 % and up to 75 % of their installed capacity. 74 units (29%) are utilizing more than 75 percent of their installed capacity.

Capacity utilization and location of the units

H_1 : There is association between variables and capacity utilization.

H_0 : There is no association between location of the unit and capacity utilization.

Out of 250 sample units 45 percent are in industrial estate. Slightly more than 23 percent are located in the Commercial area. Around 16 percent of the industries

Table-4 – Capacity Utilization and Form of Organization

Capacity utilization in percentage		Form of Organization				Total
		Proprietorship	Partnership	Private Ltd.,	Cooperative	
0-25	Count	7	6	0	0	13
	% within Org	8.8%	5.0%	.0%	.0%	5.2%
26-50	Count	25	24	4	3	56
	% within Org	31.3%	20.2%	9.1%	42.9%	22.4%
51-75	Count	33	47	24	3	107
	% within Org	41.3%	39.5%	54.5%	42.9%	42.8%
76-100	Count	15	42	16	1	74
	% within Org	18.8%	35.3%	36.4%	14.3%	29.6%
Total	Count	80	119	44	7	250
	% within Org	100.0%	100.0%	100.0%	100.0%	100.0%

Significance association was observed between capacity utilization and form of organization, Fisher's Exact Test P=0.012

Table-5 – Capacity Utilization and Background of Entrepreneurs

Capacity utilization in percentage		Background of Entrepreneurs				Total
		Industrial	Professional	Business	Agriculture	
0-25	Count	3	4	5	1	13
	% within Background	2.9%	7.7%	6.9%	4.3%	5.2%
26-50	Count	18	13	20	5	56
	% within Background	17.5%	25.0%	27.8%	21.7%	22.4%
51-75	Count	42	27	25	13	107
	% within Background	40.8%	51.9%	34.7%	56.5%	42.8%
76-100	Count	40	8	22	4	74
	% within Background	38.8%	15.4%	30.6%	17.4%	29.6%
Total	Count	103	52	72	23	250
	% within Background	100.0%	100.0%	100.0%	100.0%	100.0%

No significance association was observed between backg Ent. and Cap.Uti.(Fisher's Exact Test P=0.062)

Table-6 – Capacity utilization and Investment

Capacity utilization in percentage		Investment in Rs in Lakhs			Total
		10- 50	51-100	Above 101	
0-25	Count	5	7	1	13
	% within Invest	10.0%	4.4%	2.5%	5.2%
26-50	Count	22	28	6	56
	% within Invest	44.0%	17.5%	15.0%	22.4%
51-75	Count	18	67	22	107
	% within Invest	36.0%	41.9%	55.0%	42.8%
76-100	Count	5	58	11	74
	% within Invest	10.0%	36.3%	27.5%	29.6%
Total	Count	50	160	40	250
	% within Invest	100.0%	100.0%	100.0%	100.0%

Significance association was observed between Capacity utilization and Investment, Fisher's Exact Test P<0.001

Source: Field survey data

are found in rural area. Therefore, it could be inferred that more of the owners of the industrial units located their industries in the industrial estate itself. From the test it is clear that capacity utilization and location of industries have no significant association. Location of the unit does not influence the capacity utilization.

1. Capacity utilization and age of the units

H_1 : There is association between capacity utilization and age of the units.

H_0 : There is no association between capacity utilization and age of the units.

Table-3 reveals that industries above 20 years old but within 30 years of age are using more than 50 percent of their capacity. The test revealed that there is no significant association between the age of the units and the capacity utilization.

As far as the age of the respondent units is concerned more than 55 percent of the units belong to the category of 10 to 30 years. Slightly more than 20 percent of the units are aged around 10 years. However, a negligible percentage of around 16 percent belong to the age group of 40 years. The test revealed that there is no significant association between the age of the units and the capacity utilization.

3 Capacity utilization and form of organization

H_0 : There is no association between capacity utilization and form of organization.

H_1 : There is association between capacity utilization and form of organization

Ownership pattern of the sample units slightly more than 47 percent belong to the category of partnership

followed by proprietorship which is slightly above 33 percent. Around 18 percent belong to the category of private limited. A very meager percentage of around 3 percent belong to the category of co-operative sector. The Table shows that industries managed under company form (Private Ltd.) are using 50 percent and above of their installed capacity. The test revealed that there is significant association between capacity underutilization and form of organization.

4. Capacity utilization and Background of Entrepreneurs

H_0 : There is no association between capacity utilization and background of the entrepreneurs.

H_1 : There is association between capacity utilization and background of the entrepreneurs.

In the course of the survey, a question was posed to the entrepreneurs to ascertain their background. Slightly more than 41 percent reported that, they belong to the industrial background followed by those with business background that accounted for around 29 percent. It is interesting to note that a meager percentage of around 9 percent have the agricultural background. The test result shows that, there is no significant association between background of the entrepreneurs and capacity utilization.

5. Capacity utilization and Investment

H_0 : There is no association between capacity utilization and investment.

H_1 : There is association between capacity utilization and investment

Capital Investment of the selected have been considered units. An overwhelming majority of 64 percent made capital investment in the region of 50-100 Lakhs. Those, who

invested between Rs.100-150 Lakhs account for 16 percent. On the other hand those who invested 10-50 Lakhs account for 20 percent. Industries having investment of more than Rs 50 lakhs and Rs. 1 crore are using more than 50 percent of their installed capacity. The test revealed that there is significant association between investment and capacity utilization.

Summary and Conclusion

The following are the major findings:

- Location of the unit does not influence the capacity utilization.
- There is no significant association between the age of the units and the capacity utilization.

However, old industries are using more capacity than recently started industries.

- There is a relation between form of organization and capacity utilization.
- There is no significant association between background of the entrepreneurs and capacity utilization.
- There is significant association between investment and capacity utilization.
- New entrepreneurs start new ventures without adequate market studies and feasibility studies (30%).
- New enterprises come up on the perceived success of existing ones rather than on the basis of realities (40%).

• Entrepreneurial talents and lack of risk taking on the part of the entrepreneurs contributed for under-utilization of capacity (35%).

• Exogenous factors like business recession and government policy also influence and contribute

for the underutilization of small scale units in the study area (20%).

- The incentives provided by the Central and State Government are not within the reach of all the entrepreneurs (25%).

- Lack of return on investment currently discourages entrepreneurs to borrow funds for capacity utilization (25%).

- Chain of failures also contributed for the underutilization of capacity in (25%) industries.

- Low brand image of the products due to no or inadequate spending on marketing of the products or sales promotional activities (50%). and

- It is quite miserable to note that only a negligible portion of the units obtained ISO certification. The maximum turnover achieved falls in the region of Rs.60 to 80 Lakhs. It is also observed that most of the industries are mechanized and capital intensive.

Suggestions

- It is found that some entrepreneurs start new ventures on zeal and enthusiasm without proper feasibility studies. This tendency should be curbed and feasibility reports should be strictly enforced.

- The rules, regulations, norms, compliance and conformity pertaining to the erection of small-scale units should be redefined in the wake of performance failure of the units and under capacity utilization.

- Chambers of Commerce of the two Districts should take the initiative on a priority basis to study the present status of small-scale industrial units and suggest practical measures to revive those industries

- Many reputed Engineering Colleges and Management Schools

are functioning in the Districts. As a measure of social responsibility, these institutes are in a position to guide from technical, management and administrative perspectives. Efforts should be made to initiate, channelize the expertise of these institutes for the benefit of these small-scale units. There is a need to have a industry – institution linkages.

- The entrepreneurial training should be made mandatory. This should be an on-going programme rather than one time programme.

- The Government support in the form of subsidies, loan at reduced rate, if possible interest and tax holidays need to be made available without much hassle.

- Government should evolve and implement a special scheme to revive and a restructure the loss making industrial units. In this direction totally unviable units should be closed down and promising ones should be taken for the revival package. Board for industrial financing and restructuring (BIFR) should be strengthened and empowered to deal with the revival of sick small scale units

- Government attitude in providing basic and infrastructural facilities is indifferent and peripheral; Government promises something in this direction but acts otherwise. There should be continuous power supply, water supply and excellent means of transport.

Conclusion

This empirical study examined the working of Small-Scale units, measured and assessed capacity utilization and projected the disastrous consequences of under-utilization of capacity. It is also observed that every project is a success on paper and in reality hardly 20 percent of the projects

register success. This trend has created a social and economical insecurity among the owners of SS units to bring about a change. Fuller utilization of production facility will ensure higher production at a maximum scale of economics to the entrepreneur. Therefore, the owners of Small-Scale units should identify the real problems confronting them and take necessary and appropriate measures to come out of the crisis. In this era of socio-economic transformation and favourable conditions, it is the turn of small-scale industries to rise to the occasion and tell the society that they are capable of producing results.

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