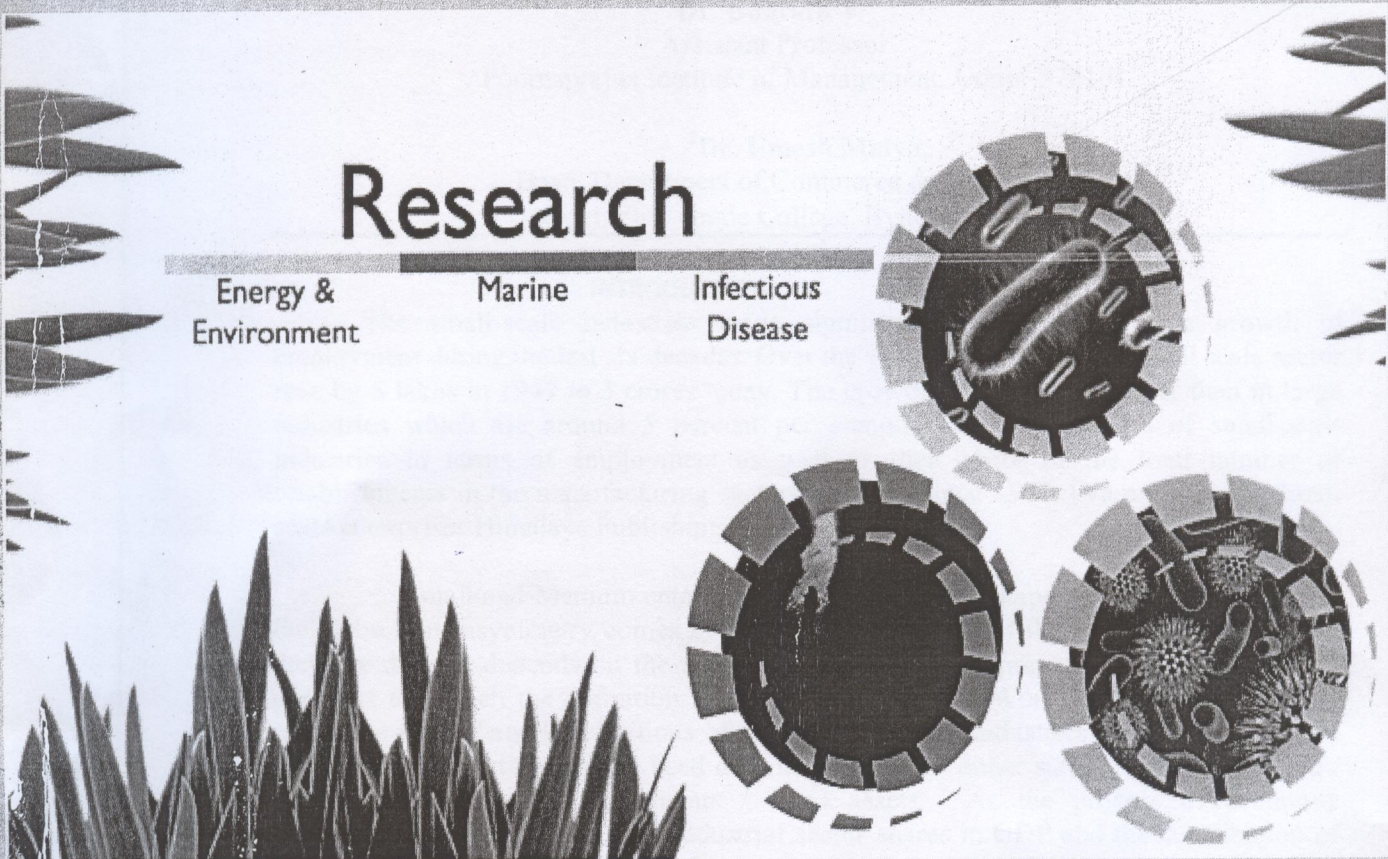




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Status of Small Scale industries in Udupi and Dakshina Kannada Districts of Karnataka State

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INTRODUCTION:

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 contributions of small-scale industries in terms of employment as well as their share of the total number of establishments in the manufacturing sector increased since 1977. (Vasanth Desai, Small scale enterprises Himalaya Publishing House),

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

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. It is hoped that such encouragement would result in healthy development and progress of the small-scale industries leading to increased production in various sectors, creation of vast employment opportunities, good resource mobilization and providing consumer satisfaction. Even, almost all political parties have been supporting expansion of small-scale industries. Thus, there are high expectation that there would be an increase in turnover, production, profit margin, capacity utilization and exports. But the hopes have not been satisfactorily fulfilled.



According to the publication of Small Industries Association, Dakshina Kannada District (2008) at Dakshina Kannada and Udupi 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 marketing and financial indiscipline are the major problem.

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 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. 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.

LITERATAURE REVIEW

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 Out Look 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.

David H. Holt explains in one of the books on Entrepreneurship (Economic Review-1994) that during the period of depression capacity under utilization is found in almost all industries. Market trend is directly connected with capacity utilization.

Small Enterprises Development Management and Extension (SEDME) of Hyderabad, published articles on capacity underutilization in small industries, based on the study conducted by the Professors Krishna Kumar, Dr Ramanath and Haphzibah (1984-85). The researches took sample units at Hyderabad and Secundarbad. The study revealed that 50 per cent of small-scale units were not in a position to utilize more than 50 per cent of their installed capacity. In the study prominent reasons indicated by the entrepreneurs were inadequate market demand and inadequate working capital. Other reasons were irregular and inadequate supply of power.

Another research article published by Professors Jaychandran, Narendra Kumar and Dr. Himachalam in the SEDME (1994-95) on capacity utilization of selected small-scale units of Tirupathi Industrial estate discloses that 50 per cent were utilizing 25 per cent to 50 per cent capacity and the remaining 50 per cent were utilizing 50 to 75 per cent. And no unit was utilizing more than 75 per cent of plant capacity. Further it revealed that age of the unit alone is not accountable for the extent of capacity utilization. Entrepreneurial talents and problems, which confronted the unit, also influenced the level of capacity utilization in the small-scale units under study.

It has been suggested that a proper use of out put potential will not only improve the factor efficiency but also create additional jobs. The fact that utilization of capacity may not necessarily be linked with business cycles was made obvious by the study of Foss who observed that in the United States manufacturing sectors capital stock was used not more than 75 percent of time even in the best of years (Foss-1963). Another important study that explained, theoretically and empirically, that utilization of capacity is not



necessarily linked with business cycles is the study of Marris on British industry (Marris 1964). The average economy-wide capacity utilization rate in the US since 1967 was about 81.6% according to the Federal Reserve measure. The figure for Europe is not much different, for Japan only slightly higher. (Wikipedia, the free encyclopedia)

RESEARCH QUESTIONS

The study intended to answer the following research questions.

1. What are the key factors responsible for underutilization of capacity in Small-Scale Industrial units in Dakshina Kannada and Udupi Districts?
2. What are the disastrous effects caused by underutilization of capacity on the normal functioning of the industrial units?
3. What measures do the industrial units adopt to mitigate dangers inherently involved in the under utilization of capacity?
4. What are the impediments in the way of resolving the problem of capacity under utilization?
5. How far Government programmes and schemes successful in resolving the crises of capacity under utilization?
6. How do capacity under utilization measured and assessed?
7. How a conceptually sound, operationally feasible and practically implementable solution model be offered?

HYPOTHESES

Based on an extensive review of literature pertaining to the field of current investigation, the following research hypotheses have been formulated for empirical scrutiny in this study.

H₁. There is association between capacity utilization and labour turnover. .

H₂. There is association between capacity utilization and profit on sales

H₃. Industrial sickness (poor performance) in small scale industry tends to be largely due

to capacity underutilization

H₄. Capacity utilization tends to be the same between labour intensive and capital intensive industries.

OBJECTIVES OF THE STUDY

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

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.

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. Relevant 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:

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

Limitations:

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

Findings of the Study:

Table-1: Industries classified from A to J based on their nature of activities

Sl. No.	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, Machinery Parts, Electrical Products	30	12
Total			250	100

(Source: Field Survey)

Table- 2: Educational Qualifications of Entrepreneurs

Sl. No.	Category of industry	Educational qualification of entrepreneurs						Total
		Below 10 th std	10 th	12 th / Diploma	Graduation	Post Graduate	Professional/ Technical	
1	A	2	-	-	18	10	5	35
2	B	-	5	10	5	5	-	25
3	C	5	-	10	5	-	-	20
4	D	-	5	5	10	-	-	20
5	E	-	5	5	5	-	-	15
6	F	-	-	5	10	5	5	25
7	G	-	-	-	10	10	5	25
8	H	-	-	-	10	10	5	25
9	I	-	-	-	10	10	10	30
10	J	-	-	-	10	10	10	30
Total		7	15	35	93	60	40	250
Percent		2.8	6	14	37.2	24	16	100

(Source: Field Survey)

Table-3: Capacity Utilization of Sample Units

Category of Industries	Capacity Utilization (In %)				Total
	<25	26-50	51-75	> 75	
A	-	5	25	5	35
B	-	-	5	20	25
C	-	5	10	5	20
D	4	4	8	4	20
E	3	5	6	1	15
F	-	4	11	10	25
G	-	5	10	10	25
H	2	8	10	5	25
I	2	10	10	8	30
J	2	10	12	6	30
Total	13	56	107	74	250
Percentage	5%	23%	43%	29%	100%

(Source: Field Survey)

STATISTICAL TESTS AND RESULTS:

Analysis of the data shows the relation between variables and capacity utilization. The data shows

- that capacity utilization is higher in the industries located at commercial area,
- old industries are using more capacity than recently started industries,
- there is a relation between form of organization and capacity utilization;
- background of the entrepreneurs is also a determining factor for capacity utilization,
- Investment in the industries influences the capacity utilization.

From the collected data it can be observed that labour turnover is high in the case of plants where capacity is underutilized, profit percentage is low in units where capacity is underutilized. Analyzed data shows that performance of the industries depends upon their capacity utilization. With respect to labour intensive and capital intensive industries, the data showed capacity utilization is high in the case of capital intensive industries. In order to find out real relationship or association statistical tools are used.

Following are the results of statistical test.

Chi-Square test for variables associated with capacity utilization.

(Statistical Package for Social science version 11.5 was used to summaries and analyze the data)

1. Capacity Utilization and Labour Turnover:

H₀: There is no association between capacity utilization and labour turnover.

H₁: There is association between capacity utilization and labour turnover.

Table-4: Capacity Utilization and Labour Turnover

Capacity Utilization Percentage	Labour Turnover		No. of units
	Less than 10% p.a.	More than 10% p.a.	
0-25	3	10	13
26-50	51	5	56
51-75	102	5	107
76 -100	69	5	74
	225	25	250

$\chi^2 = 69.236$ There is significant association (Chi-square test)

Above table is reduced to 2x2table to find out the positive or negative association

Capacity utilization in Percentage	Labour Turnovers	
	Less than 10%p.a.	More than 10%p.a.
0-50	54	15
51 and above	171	10

Coefficient of association

$Q = -0.652$

Reject H_0 both at 5 and 1percent level.

Chi-square test shows that there is relation between capacity utilization and labour turnover both at 5 percent and 1 percent level. Labour turnover and capacity utilization are inversely related in the sample units. It indicates that units having less labour turnover are using more of their installed capacity.

2. Profits on Sales and Capacity Utilization

H_0 : There is no association between capacity utilization and profit on sales.

H_1 : There is association between capacity utilization and profit on sales

Table-5: Profits on Sales and Capacity Utilization

Capacity Utilization in Percentage	Profit on Sales		Total
	Less than 10% p.a.	More than 10% p.a.	
0-25	10	3	13
26-50	5	51	56
51-75	5	102	107
76 -100	-	74	74
	20	230	250

$\chi^2 = 92.312$ There is significant association (Chi-square test)

Above table is reduced to 2 x 2 table to find out the positive or negative association.

Capacity utilization in Percentage	Profit on sales	
	Less than 10%p.a.	More than 10%p.a.
0-50	15	54
51 and above	5	176



Coefficient of association

$$Q = + 0.8$$

Reject H_0 both at 5 and 1 percent level.

Chi-square test reveals that there is relation between capacity utilization and profit on sales both at 5 and 1 percent level. Profits on sales and capacity utilization are directly related. Firms which use more of their installed capacity earn higher percentage of profits on sales.

3. Capacity Utilization and Performance of the Industries:

H_0 : Industrial sickness (poor performance) in small scale industry tends to be not due to Capacity underutilization

H_1 : Industrial sickness (poor performance) in small scale industry tends to be largely due to capacity underutilization .

Table-6: Capacity Utilization and Performance of the Industries

Capacity Utilization in Percentage	Performance		No. of Units
	Sick	Non-Sick	
0-25	10	3	13
26-50	10	46	56
50-75	5	102	107
76-100	-	74	74
	25	225	250

$\chi^2 = 80.09$ There is significant association (Chi-square test)

Above table is reduced to 2 x 2 table to find out the positive or negative association.

Capacity utilization in Percentage	Performance	
	Sick	Non Sick
0-50	20	49
51 and above	5	176

Coefficient of association

$$Q = + 0.86$$

Chi-square test shows that there is association between capacity utilization and performance of industries. There is direct relation between them. Highly performing industries (Non-sick) units are using higher rate of their installed capacity and non performing units (sick) have used lower rate of their installed capacity. There is positive relationship.

4. Capacity Utilization and Labour and Capital intensive industries

H_0 : Capacity utilization tends to differ between labour intensive and capital intensive industries.

H_1 : Capacity utilization tends to be the same between labour intensive and capital intensive industries.

Table-7: Capacity Utilization and Labour and Capital intensive industries

Capacity Utilization Percentage	in Labour Intensive Industries	Capital Intensive Industries	No. of Units
0-25	7	6	13
26-50	22	34	56
51-75	35	72	107
76-100	19	55	74
	83	167	250
$\chi^2=5.312$ No significant association (chi- square test)			

We suspect, from the collected data, that labour intensive industries are using capacity at lower rate while capital intensive industries are using higher rate of their installed capacity.

But Chi-square test revealed that there is no association between capacity utilization and labour or capital intensive industries at 5 percent as well as 1 percent level of significance

CONCUSION:

The Small and Medium units of the district are confronted with innumerable problems, many of them originating from their small size. Many industries are not getting the benefits of internal and external economies of large scale. Collected information shows that in the sample study less than 28 percent of the units are utilizing less than 50 percent of their installed capacity and about 29 of the units are utilizing more than 75 percent of their installed capacity. Out of 250 sample units 80 units owned by proprietorship, 119 owed by partners, 44 private limited, seven under cooperative sector. About 45 percent industries located in industrial estates and the rest are in the commercial area, residential, remote and rural areas. Given the crucial importance of the SSI sector to the economy with 40 per cent share in the total industrial output, 35 per cent in exports and over 80 per cent in industrial employment, it deserves all the policy support the Government can offer. What the small entrepreneurs need is not protection but institutional support to fund modernization and technology up gradation, infrastructural support, and adequate working capital finance from the banking sector. There is also a need for small entrepreneurs to keep pace with the structural and technological changes taking place in large industries. The present policy discourages the small units to grow into bigger ones because of the low investment limit in plant and machinery and the artificial props such as excise duty exemptions. The small manufacturer compensates for lack of modern facilities and more efficient production processes with a combination of lower overhead more skilful workers and a number of personal innovations in tooling and production sequences. He can now maintain a competitive position with such compensations. When capital requirements for manufacturing become substantial, he must use considerable resourcefulness to put together his manufacturing operations so that he is not overcapitalized. More importantly, fuller utilisation of production facilities will ensure higher production at a maximum scale of economies to the entrepreneur or manufacturer.



The government and their agencies, say DICS should take initiative for developing industrial infrastructure, particularly for industrial estates. The main objectives of the industrial estates are to shift small industries from congested areas to industrial estates with a view to increasing their productivity, to achieve decentralized industrial development in small towns and villages, to assist ancillary industries in the township surrounding major industrial undertaking, both in the public and private sector.

The infrastructure constraints confronted by SSI can be broadly classified as economic, technological, marketing and financial. Stable and reliable economic infrastructure such as power, water, transport and communication are the prerequisite to the efficient functioning of an economic activity including that of SSI. Inadequate economic infrastructure is a major factor that affects the performance and competitiveness of SSI. It has to overcome the deficiencies faced by the sector and has to strengthen linkages between agriculture and industry.

The state government, along with industry association, should involve the private sector in the development of infrastructure in the existing industrial estates and clusters and permit provision of infrastructure facilities on payment. Similarly, private sector investment should be encouraged for the development and management of existing as well as new industrial estates. Development of industrial estates should be treated on par with infrastructure development and state government should prepare guidelines for private investments.

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