

MANAGEMENT OF SMALL SCALE INDUSTRIES IN VISAKHAPATNAM DISTRICT WITH REFERENCE TO FABRICATION UNITS

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ABSTRACT

Small industry plays a key role in the developing economies characterized with scarcity of capital on the one hand and unutilized manpower on the other. Small industry has been attracting the attention of planners and policy makers in these countries in view of highly favorable capital-output ratios and employment potential. In the Indian context it has been aptly described that small industries play a “ key role in the country’s economic development with their advantages of low investment, high potential for employment generation, decentralization of industrial base and dispersal of industries to rural and semi urban areas. Along with the increase in the number of small scale units there developed a disturbing phenomenon in this sector. A number of units started falling sick and overtime sickness among the small-scale industries was reported to be on the increase. Against this background an attempt is made to study the problems of entrepreneurs in managing the small scale industries.

Keywords: Entrepreneurs, Small Scale Industries, Engineering industries, profitability, employment.

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Introduction

Small Scale Industrial sector has performed exceedingly well and enabled our country to achieve a wide measure of industrial growth and diversification. By its less capital intensive and high labor absorption nature, SSI sector has made significant contributions to employment generation and also to rural industrialization. This sector is ideally suited to build on the strengths of our traditional skills and knowledge, by infusion of technologies, capital and innovative marketing practices. In the present liberalized and globalised economy the significance of productivity in the development of SSI sector needs to be recognized. In the recent years, the liberalized economy has resulted in a shift from protective policies to market-oriented environment. Under the new dispensation people have become skeptical about the fate of the small business and often believe that they will not be able to survive in the new competitive environment. But this is not correct. Although the new paradigm makes things a little more difficult for the small enterprises, as a result of this liberalized economy, the market is likely to grow faster and create more opportunities for small industries to participate. In addition to this, the growth of the services sector as well as the knowledge economy will create a greater demand for customized services and this will generate specific demand for outsourcing, which is an obvious market for small enterprises.

Objectives of the Study

The present study is conducted with a view to understand the profiles of engineering industries and their functioning and identify their problems and weaknesses and suggest some remedial measures.

Methodology

For the purpose of the study, data has been collected from both primary and secondary sources. Primary data is obtained from the small-scale engineering industries. There are a number of small-scale engineering industries functioning in Visakhapatnam city. Fabrication units has been taken as the main unit for the study as there are number of consumers depends on fabrication works. There are a total of 32,375 units existing in Visakhapatnam district . Out of these total

units engineering units constitute 7786. Among these, a total of 154 units have been selected on the basis of random sampling for undertaking the survey. A structured questionnaire has been prepared and canvassed among the respondents. The data so collected is processed, tabulated and the analysis is presented hereunder.

Table 1

Educational Qualifications of Entrepreneurs

Qualifications	Number of SSI units		Percent
	1	2	3
Below 10 th		26	16.88
SSC		48	31.17
Degree		8	5.2
Post Graduation		0	0
Technical		72	46.75
Total		154	100

Good and relevant education provides scope for gaining knowledge and appropriate planning of the career of the individuals. Table 1 gives information on the distribution of entrepreneurs by their educational qualifications.

It can be seen from the table that of the total respondents 47 percent of them have secured technical qualifications like engineering, ITI, etc. and other vocational courses. Another 31 percent of the respondents possessed SSC qualification alone and after securing SSC they have worked in private organizations and basing on this experience gained only they entered in this industry. 17 per cent of them are having qualifications less than SSC and only 5 per cent of them are degree holders, and postgraduates are totally absent.

Table 2

Previous Occupational Characteristics of the Entrepreneurs

Previous occupation	Number of SSI units			Percent
	1	2	3	
Un-employed		6		3.9
Studies		20		12.99
Private service		114		74.03
Business/Trade		14		9.09
Artisan		0		0
Total		154		100

Occupational background has a profound influence on the present activities of the respondents. With this idea in view the previous occupations of the entrepreneurs have been enquired. Table 2 exhibits these details.

The above table shows that out of the total respondents 74 percent of them have previously worked in private enterprises and only with that experience they started their own enterprises. Another 13 percent of them started their own enterprises after they completed their studies in technical education. Besides, 9 percent of the respondents reported that previously they were engaged in other businesses and now they have turned towards the engineering industry. The entrepreneurs include 4 per cent who are unemployed until they joined in this stream.

Table 3

Forms of Business Organization Carried out by the Entrepreneurs

Forms of Organization	Number of SSI units			Percent
	1	2	3	
Sole Trade		128		83.12
Partnership		20		12.99
Private company		6		3.9

Total 154 100

In the next stage, it is attempted to know the details of different forms of organizations, particulars details of capital invested, workers employed etc. Table 3 gives the details of forms of organizations.

Normally there are three types of organizations which exist in the business world viz, sole trader, partnership firm and joint stock company. In the present study, as indicated by Table 3, a large majority of the entrepreneurs to the extent of about 83 percent are under sole trader business because of low investment requirement and works are distributed to various industries. Another 13 percent are under partnership firms with their friends and family members. Some of the engineering industries i.e., 4 percent started as private companies to undertake the jobs like pipelines and other works.

Table 4
Size of Capital Investment by Different Entrepreneurs

Capital	Number of SSI units	Percent
1	2	3
Below 1 lakh	74	48.05
1 – 5 lakh	56	36.36
5 – 10 lakh	12	7.79
Above 10 lakh	12	7.79
Total	154	100

Reasonable size of capital investment is required for sustainable development of small scale industries. Table 4 examines the size of investment made by different entrepreneurs.

Given the nature, size and type of industries specified above, it can be presumed that the capital requirement is very less. The data presented in Table 4 indicates that of the total respondents 48 percent have expressed less than Rs. 1,00,000 as their investment, which is very

low by any standards. 36 percent of respondents have invested in the range of Rs. 1-5 lakhs. Only 8 percent of respondents have invested Rs. 5-10 lakhs and an equal percentage of respondents invested above Rs.10 lakhs.

Table 5

Number of Employees Working in SSIs

No. of employees	Number of SSI units	Percent
1	2	3
Less than 5	70	45.45
5 – 10	60	38.96
10 – 15	18	11.69
More than 15	6	3.9
Total	154	100

One of the important objectives of the small-scale industries is to provide large-scale employment. With this in view an attempt is made to examine the pattern of employment opportunities provided by the entrepreneurs. Table 5 gives this information.

It can be seen from the table that most of the units are running with less than 5 workers. In this study 45 percent of the entrepreneurs are employed less than 5 workers, 39 percent of the respondents employed 5–10 workers, 12 percent of the respondents employed 10-15 workers and only 4 percent respondents employed more than 15 workers.

An important observation in this regard is that out of the total entrepreneurs selected for the study either the entrepreneurs themselves or their family members are also doing jobs as workers in 13 units.

Table 6

Motivating Factor for Starting Small Scale industries

Motivating factor	Number of SSI units	Percent
1	2	3
To get profits	2	1.3
To get an independent job	128	83.12
To utilize the skills	24	15.58
Casually without any motivation	0	0
Total	154	100

Further, the respondents are asked to specify what are the motivating factors that have contributed for the establishment of their respective industries. Table 6 provides this information.

The responses received are varied. Most of the entrepreneurs are started this type of units to get the independent job after their service in various private organizations. It is evident from this study 83 percent of respondents have started their industries to get the independent job only, 15.5 percent of respondents entered in this industry to utilize their skills and 1.5 percent of entrepreneurs are to get the profit.

Table 7

Sources of Finance Received by the Entrepreneurs

Sources of Finance	Number of SSI units	Percent
1	2	3
Bank	56	36.36
Government agencies	14	9.09
Non-government agencies	4	2.6
Friends	52	33.77
Money lenders	4	2.6
Self	24	15.58
Total	154	100

Working capital is the basic necessity for efficient functioning of the small scale industries. If we consider the size of the sample industries and the background of the entrepreneurs it is but natural that they have to borrow the required finance from various sources. Keeping this in view the respondents are enquired about their sources of finance for their industries. The responses are depicted in Table 7.

It is found from the table that 36 percent of respondents received financial support from Bankers and another 34 percent of respondents took the financial support from their friends. 15 percent of the respondents have obtained finance from their own sources. There are also other entrepreneurs who have received funding from government and non-governmental agencies and also from moneylenders. However, their share of finance is considerably low.

Table 8
Marketing of Products

Marketing	Number of SSI units	Percent
1	2	3
Local market	106	68.83
State level	40	25.97
Interstate level	8	5.19
International	0	0
Total	154	100

It can be seen from Table 8 that of the total respondents 69 percent of entrepreneurs are marketing their products in local markets while another 26 percent of entrepreneurs are marketing at the state level. Besides 5 percent of entrepreneurs market their products at interstate level also i.e. they are getting orders from Orissa etc.

Table 9

Channels of Distribution for Marketing of Products

Channels of Marketing	Number of SSI units		Percent
	1	2	3
Wholesale		0	0
Retail		0	0
Wholesale & retail		0	0
Order supply		154	100
Total		154	100

Information is also gathered about the various channels of distribution utilized by the entrepreneurs for marketing their products and these are presented in Table 9.

Generally all the Engineering industries will manufacture various items basing on the order supply. In this type of industries entrepreneurs are should try to get the orders to carry out the works like machining, threading, die making etc. No wholesalers or retailers are involved in this business.

Table 10 Nature of Competition among Selected Small Scale Industries

Nature of competition	Number of SSI units		Percent
	1	2	3
Price		78	50.65
Quality of product		70	45.45
Distribution network		6	3.9
Large scale organization		0	0
Total		154	100

Given the type of small scale industries, it is but natural that competition exists and the entrepreneurs who are able to compete with their fellow businessmen can survive in the industry. Table 10 gives the information on the distribution of entrepreneurs by their nature of competition.

Competition depends on various factors such as price, quality of the product, distribution network, and size of the organization and so on. In the present study it is observed that more competition is depending on price. 51 percent of respondents have expressed their opinion as competition in price, 45 percent of entrepreneurs expressed competition in quality of product, and 4 percent of the respondents felt that total work is distributed among the number of industries in the same field.

Table 11
Attitudes of Entrepreneurs on Profitability of the Industries

Profitability	Number of SSI units			Percent
	1	2	3	
Good		28		18.18
Bad		4		2.6
Average		122		79.22
Total		154		100

Information is also gathered about the attitudes of the entrepreneurs on the profitability of the small scale industries. Table 11 gives this information.

It is found from the table that 79 percent of the respondents have expressed about their profitability as average where as 18 percent of the respondents felt happy about their quantum of

profitability and expressed satisfaction by terming the same as good. Only 3 percent of the respondents expressed dissatisfaction by terming the same as bad in respect of their profitability.

Table 12

The Determinants of Profitability

Determinants of profitability	Number of SSI units	Percent
1	2	3
Competition in market	66	42.86
Competition from big business	18	11.69
Changes in the tastes and preference of customer	0	0
High capital requirement	2	1.3
Instability to maintain the business	42	27.27
Technology change	10	6.49
Cost of production	16	10.39
Total	154	100

There are certain factors that determine the profitability of the industries, which are commonly known as determinants of profitability. Table 12 gives the information on the nature of determinants of profitability.

The table shows that 43 percent of the respondents felt that competition in the market is the major factor for achieving higher profits. They felt that in market so many engineering industries are existed and the total works are distributed among them. Some entrepreneurs are unable to run the industry as they are getting profit equal to their investment on maintenance and 27 percent of the respondents are opined instability to maintain the business. While 17.5 per cent

of them expressed competition from big business as an impediment, 10 percent of the respondents felt high cost of production as a discouraging factor.

Table 13

Labour - Management Relations in Small Scale Industries

Relations	Number of SSI Units			Percent
	1	2	3	
Good		136		88.31
Satisfactory		8		5.19
Not-satisfactory		0		0
Bad		10		6.5
Total		154		100

Existence of cordial relations between labour and management normally contributes for the growth of the industry. With this objective in view an attempt is made to enquire about the nature of workers and management relationship. The details are presented in Table 13.

It can be seen from the table that 88 percent of the enterprises reported that the labour-management relations in their organizations are good and 5 percent of the respondents expressed as satisfactory. However, 7 percent of the respondents reported that the labour – management relations are not satisfactory and rather bad. This is because of the presence of absenteeism, lack of punctuality and non-performance of certain workers as required.

Table 14

Attitude of the Government on the problems of Small Scale Industries

Attitude	Number of SSI units		Percent
	1	2	
Helpful		48	31.16
Indifferent		50	32.47
No comment		50	32.47
Unreasonable		6	3.9
Total		154	100

It is the renewed policy of the Government to encourage and support the small scale industries for their around development and growth. But in practice it is not happening according to the respondents. Table 14 furnishes the opinions of entrepreneurs on attitude of government towards their industries.

It is seen from the table that only 31 percent of the entrepreneurs have expressed their opinion on the attitude of the Government which is helpful by way of giving sites, subsidies etc. But 32.5 percent of respondents have expressed that the attitude of Government is indifferent towards their problems and needs, while an equal percent of them are non-committal and made no comments. And 4 percent of respondents felt as unreasonable about the Government's attitude.

Table 15
Responses Regarding Implementation of Welfare & Social
Security Schemes in the Organization.

Responses	Number of SSI units		Percent
	1	2	
Yes		44	28.57
No		110	71.43

Total 154 100

The welfare schemes are very much important in every organization to motivate the workers. With this objective in view the respondents are asked to specify whether they have implemented any welfare and security schemes for the benefit of the employees. These details are furnished in Table 15.

It can be seen from the table that 28.5 percent of the respondents are implementing social security schemes in the organization. A majority of 71.5 percent respondents are not implementing social security schemes.

Table 16
Statement Showing the Problems Facing by the Entrepreneurs

Problems	Number of SSI units		Percent
	1	2	
Inadequate finance	54		35.06
Non-cooperation from govt.	42		27.27
Competition	50		32.47
Lack of skilled manpower	4		2.6
Wastage	4		2.6
Political interference	0		0
Any other problems	0		0
Total	154		100

Small-scale industries in general face a number of problems in running their business establishments. Table 16 presents the various problems facing by the entrepreneurs in their organizations.

It is found from the table that 35 percent of respondents are facing problems relating to lack of adequate finance and another 32.5 percent respondents are facing problems from their competitors. 27.3 percent are facing problems from Government officials like labour officers, power distribution etc., 2.6 percent of respondents facing problems due to lack of skilled manpower and 2.6 percent of respondents are facing problems due to wastage of raw material.

Conclusion:

So many SSI units facing financial problem, entrepreneurs are unable to give security or guarantor to the loans providing by the government. To encourage the new entrepreneurs' government should provide machinery at reasonable rate and to facilitate payment will be in installments. Developing industrial estates, providing finance at subsidized interest rates, giving special rebate on power tariffs and tax exemptions, all go a long way in helping the small-scale units to flourish. Some of the entrepreneurs feeling that technical education institutions are not giving proper training, just they are giving certificates. Because of that skilled workers are not available. The problem of marketing can be avoided if the Government departments buy the products of small scale units to market through the Government channels, provided the quality is up to the expectation or equal to the other large scale units or competitions.

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