

UNIT 8

PROBLEMS

The small- and medium-scale industrial enterprises are not, however, without their problems which are many and varied in nature, depending partly on the level of economic and social development reached by the countries.

A few major problems and issues are given below:

- (a) Surveys of the material and human resources of the countries to identify the regions or areas for the development of small-scale and medium-scale industrial enterprises;
- (b) Identification of industrial projects for development;
- (c) Project preparation and evaluation;
- (d) Financial or credit support and investment promotion;
- (e) Consultancy and counselling services;
- (f) Technology development and applications such as, the designing of prototype machines for products identified according to available resources and requirements;
- (g) Development of infrastructure of various kinds in the appropriate areas;
- (h) Entrepreneurship development;
- (i) Industrial training and skill formation;
- (j) Linkages between large industries and small industries and the creation of sub-contracting facilities at the national, regional and international levels;
- (k) Quality control and testing facilities;
- (l) Market promotion both domestic and export;
- (m) Scientific and industrial research;
- (n) Information collection and dissemination on technology, markets etc.;
- (p) Identification of and assistance to enterprises which are experiencing infrastructure difficulties;
- (q) Management and restructuring of small-scale and/or medium-scale enterprises through various schemes;
- (r) Increase productivity through modernization;
- (s) Incentive measures both by industry and by area;
- (t) Local initiative;
- (u) Creation of institutions and changes in prevailing institutional arrangements;
- (v) Regional and international technical and financial assistance;
- (w) Co-operation among the developing countries.

PROBLEMS OF ENTREPRENEURSHIP

Introduction

The problems follow the entrepreneur like a shadow. If he overcomes a problem a few more crop up. The entrepreneur faces problems in the beginning, i.e., starting problems. He is confronted with problems when the enterprise is alive and kicking. If it is sick, another set of problems.

External Vs Internal

We may divide the problems of industries into two groups — *external and internal*. As is obvious, external problems are those which result from factors beyond the control of the entrepreneur, the availability of power and other infrastructure facilities required for the smooth running of small-scale industries (SSI) while internal problems are those which are not influenced by external forces. The internal problems affecting the industries relate to organisation, structure, production channel, distribution channel, technical know-how, training, industrial relations and inadequacy of management, etc. However, it is not our intention here to suggest that the two kinds of problems are mutually exclusive — they are co-related.

The problems of industries, whether in the small-scale sector or in the organised sector, are almost identical. However, the organised industry is financially very strong and its resources are large; it can therefore face its problems more effectively. Because of its weak financial structure, the resources of the small-sector are limited while the large sector can employ trained and experienced managers, the small industry, the proprietor or the partners, or if the unit is a company, its director or directors have to take care of all the problems. The large sector can influence its raw material suppliers, its customers, and at times even the Government is framing its policies, but the small entrepreneur is helpless in this respect. He, therefore, has to look after the entire spectrum of problems despite the great limitations under which he functions.

Table 46.1
Problems of Enterprises

<i>Internal</i>	<i>External</i>
(i) Choice of an idea	(i) Infrastructural
(ii) Feeble structure	(a) Location
(iii) Faulty planning	(b) Power
(iv) Poor Project Implementation	(c) Water
(v) Poor Management	(d) Post office etc.
(vi) Poor Production	(e) Communication
(vii) Poor Quality	(ii) Financial
(viii) Marketing	(a) Capital
(ix) Financial Crunch	(b) Working capital
(x) Labour problems	(c) Long-term funds
(xi) Capacity utilisation	(d) Recovery
(xii) Lack of vertical and horizontal integration	(iii) Marketing
(xiii) Inadequate training in skills	(iv) Taxation
(xiv) Poor and loose organisation	(v) Raw material
(xv) Lack of strategies	(vi) Industrial and Financial Regulations
(xvi) Lack of vision	(vii) Inspections
(xvii) Inadequate connections	(viii) Technology
(xviii) Lack of motivation	(ix) Government. policy
	(x) Administrative hurdles
	(xi) Rampant corruption
	(xii) Lack of direction
	(xiii) Competitive & volatile environment.

Teething Troubles

From the moment a small industrialist conceives the idea to start his own unit, he has to work against heavy odds. The first step, viz., the preparation of a project report, calls for the collection of data on the marketability of the product chosen, the availability of raw materials, the manufacturing techniques involved, the choice of machinery and location. While a large unit can afford to pay a fat fee to a consultant for the preparation of a project report, the small industrialist has generally to rely on himself.

Licence

The next problem is to obtain the permission of, and licence from, the Industries Department of the State, local bodies, etc. But despite the policy of the Government, officials are often unhelpful — they have other ideas. A lot of time and energy are wasted in persuading these officials to perform their duties. It is also true that the small-scale sectors do not know how to make an approach and avail itself of the various facilities announced by the Central and State Governments. Alternatively, they are not

in a position to communicate with the well organised, urbanised bureaucracy. These are the major handicaps which hinder the growth of the small-scale in the country.

Problems of Small Entrepreneurs

The schemes and programmes intended for the small sector have had good intentions and despite the growth and overall contribution of this sector in the Indian economy, the SSI sector has suffered from many problems as well. The plethora of institutions without any effective coordination and subsequent snags/lacunae at the implementation level have resulted in quite a number of SSI units going sick and a good number of entrepreneurs withdrawing from the scene. These entrepreneurs find much gap between the plans and their implementation. Some of the problems identified are as under:

1. Non-availability of suitably updated handbooks about the various industries in Small Industries Service Institutes (SISI).
2. The hire-purchase scheme of providing assistance to SSIs helped only the larger entrepreneurs in the small-scale sector, leaving units smaller financially deprived.
3. Inadequate technical support to the entrepreneurs in respect of product identification and machinery installation from SISI. The difficulty has been in breakdowns, upgradation of technology and R & D quality control.
4. Overlapping of many items reserved for purchases from the small sector.
5. Vulnerability of small units to go sick on account of various inherent problems. As on June 1987, there were 1,58,226 small-scale units which had reported sick with amount involved around Rs. 1,542 crores. This problem received due attention in the Banker-Borrowers, Meet 1989, held in January 1989, organised by All India Association of Industries in Bombay. Though the number of sick units in the SSI sector were very high, the amount involved (Rs. 1542 crores) was not as high as that involved in large and medium-scale units (Rs. 4,200 crores), yet the severity of the problem cannot be denied.
6. Delays in provision of infrastructural facilities like sheds, water, power, raw material, etc.
7. Delays in payment of bills creating liquidity problem for SSI units.
8. Low recovery of bank funds because of difficulties in identifying genuine entrepreneurs.
9. Lack of coordination between banks and state financial corporations and other agencies in assisting SSI units.
10. Lack of expertise on the part of small-scale entrepreneurs in the maintenance of records and books.
11. Innumerable laws relating to labour, excise, taxes and other areas required to be complied with by the unit holder.
12. Lack of professionalism on the part of bankers in rendering timely and adequate financial assistance and consultancy to SSI entrepreneurs.

Inappropriate Support

While inappropriate regulation may distort, it is also clear that specific government measures of infrastructure assistance to small enterprises may, unless carefully designed, actually discourage the efficient operation of these units. Public support for small enterprises is frequently justified, for example, on the basis that they act as a "breeding ground" for entrepreneurs. This argument needs to be looked into closely. Clearly, entrepreneurship is an essential element in economic development; risks must be taken in introducing innovations; businessmen are more likely to take risks, and usually better at gauging them than public servants. They are able to "think small" and, as "economic lubricants," to search for identity, and needs look into the overlooked by the public sector. Moreover, businessmen are more likely to terminate activities which the public will not pay for.

Nevertheless, certain limitations must be recognised if programmes to assist small enterprises are to be appropriately designed. Entrepreneurs are by definition self-reliant, energetic and innovative, and do not generally need to be coddled by promotion programmes that can develop entrepreneurship. Not all — or even most — artisans and petty traders are capable of developing the capacity to innovate by taking the special courses that have sometimes been provided under Government rules.

In general, the skills and aptitudes of most proprietors of small firms are best utilised if concentrated on a narrow range of activities, leaving the more innovative entrepreneurial functions to other organisations such as trading companies or larger firms which then sub-contract to smaller ones. As economies develop and their structures change, a large workforce may, in fact, be absorbed into larger organisations as workers and supervisors. The exceptionally entrepreneurial small businessman will usually survive and grow (and eventually stop being small) if he is left free to operate, subject only to the basic ground rules of public safety.

Follow economies of scale

Industrial development everywhere has proved that economies of scale does exist. What is economy of small-scale is diseconomy of large-scale and *vice versa*. The economies of scale is bound to undergo a change with the advance of science and the progress of technology. Yesterday's economies of large-scale may become very productive economies of small-scale today or tomorrow. Thus, the concept of economies of scale is a changing concept, depending upon the dynamics of science and technology as well as the stage of economic growth and marketing prospects. Small industries make their appearance in the initial stages of industrialisation in any economy. When they grow in volume and strength, some of them taking their cue from the unmistakable signs of expanding markets at home or abroad develop by vertical or horizontal integration and become either medium or large industries. But this process does not create a dent in the ranks of small industries, because when they grow into medium and medium into large, the number of small industries also grow — in sequential progression. One cannot conceive of any national economy merely based on a few large industries. An economy having a strong and broad base of small industries and an apex consisting of large industries, with some middle layers of medium

industries can be said to have a pyramidal structure and it is this type of economy that possesses in ample measure elements of stability and dynamism. This is very true in the present-day context, and in respect to both the developed and the developing economies.

But that is the techno-economic aspect of industrialisation. In underdeveloped countries, one must not think of development on techno-economic considerations alone. There are certain social compulsions also, which assert themselves through political exigencies. It is the complex of techno-socio-politico-economic obligations that ultimately determine the pattern of industrialisation, particularly in the developing countries. Here modern technology is more or less conspicuous by its absence. The standard of living is generally not much above the subsistence level. With the economic liberalisation, the expectations of the masses are rising high and they produce from time to time political upheavals, small or great, shaking the very foundations of the national institutions. Mere industrialisation based strictly on techno-economic imperatives may make the development lopsided and may, in its wake, usher in forces that will create social and political tensions. Mere enunciation of social objectives would not keep these forces in check. People would expect and demand positive action to scale down regional imbalances and remove social inequalities. In addition to all this, hunger and poverty stare right into the eyes of that vast mass of humanity which inhabits the underdeveloped world.

Well-designed programme

Broad programmes designed to provide equal incentives and access to scarce resources for all enterprises, irrespective of size, are likely to be more beneficial in the long run than special programmes tailored exclusively to suit small-scale enterprises, which, as seen, can often yield perverse results.

A well-designed programme is likely to include many of the following components:

Credit: The availability of credit to small enterprises can often be increased by removing — or at least raising — the interest rate ceilings and permitting a “spread”: that makes it worthwhile for banks to lend to small enterprises; or by increasing the number and range of intermediaries allocating foreign exchange for investment. Refinancing facility can be useful, as can credit guarantee schemes (with costs passed on to borrowers) and training of local bank staff in simplified project appraisal and supervision methods. More importantly, credit should be made available at the appropriate time.

Imported raw materials: Reform of trade regimes may be necessary to remove abuses of the import licensing system. It is not uncommon, for instance, for middlemen to find their way on to the allocation lists and then resell their supplies at black market prices to small enterprises that desperately need imported inputs to survive in business but lack influence over the licensing authorities. Fees access to foreign sources and lower levels of protection for domestic alternatives would be desirable. If possible, attempts should be made to reduce the layers of middlemen in procuring raw materials for an enterprise.

Labour: The objective here is to increase labour skills and mobility by supplementing on-the-job training and by reducing labour market rigidities (particularly those affecting wages) which prevent the free flow of workers. Useful advice and assistance in training can often best be provided by the suppliers and customers of small enterprises, but governmental vocational training programmes can also be adapted to small-scale enterprise needs and circumstances (through such media as mobile demonstration units and night schools). In-plant training is much suited in this direction.

Technology and equipment: Changing policies that have the effect of subsidizing imported machinery would stimulate domestic engineering industries and machine shops, which are potentially important in helping small-scale enterprises improve their equipment. Technology should be easy but productive.

Buildings and utilities: "Industrial estates" are valuable to small enterprises but are generally subsidized sometimes built above the necessary standards. Removing the subsidies, levying charges adequate to recover costs and thereby permitting wider replication, and adopting appropriate, more modest standards are likely to produce economic rewards in the long run. "Sites and services" programmes for small enterprises, under which they build to their own specifications, also are useful.

Advisory services: Advisory services are needed but should be charged for on a full-cost basis so that the providing agencies — or preferably consulting firms — have ready evidence, from the market, of their utility. Public technical assistance institutions are more likely to be useful and responsive if they are specialized to cover all areas of need. Also, their utility is more likely to be assured if their intended beneficiaries are adequately represented on their governing bodies.

Markets: The demand for small enterprise products and services can be increased by eliminating "unfair" competition in the form of subsidies given to large-scale industry. Often barriers to the trading companies which market the products of small firms exist and should be removed. Export markets can be tapped more fully by ensuring that small firms as well as the large firms benefit from import duty rebates or exemptions on imported materials and components incorporated into exported products. Government can also directly enlarge the markets for small enterprises by sub-contracting maintenance and repair services that public agencies might otherwise perform themselves. Domestic market should be competitive but protected from foreign goods. Export market should be open to small-scale enterprises, especially set up for this purpose.

This list is not, of course, exhaustive. The best overall tonic for small enterprise will be an economic climate combining minimum regulation with maximum openness.

Manufacturing and Technical Problems in Small-Scale Industries

Manufacturing and technical problems arise right at the stages of project planning and feasibility report preparation. Problematic areas are product planning selection of right equipments, plant and machinery, selection of personnel and training them, technical know-how, technology transfer, industrial engineering, production engineering, use of standards, quality control and use of hightech equipments.

Product Planning

Selection of product depends on technical know-how, Infrastructural facilities available, technical and managerial abilities of entrepreneurs to complete the project successfully.

At the product planning stage itself, it is better the SSI should consult consultants, experts, leading organisation so that SSIs can get complete expertise and technical know-how, instead of doing it themselves.

Selection of equipments, plant and machinery

While selecting equipments, plant and machinery, entrepreneurs should give importance to production capacity, process capability, accuracy requirements and other supporting facilities. They should look for alternative and appropriate high-tech equipments, if they are technoeconomically feasible. These high-tech equipments are known for their quality, quantity, reliability, and high productivity. Because of these qualities, the productivity increases, lowers the cost of production, ROI (Return on investment) is very high and the entrepreneurs could recover their investment within two or three years. SSI should get the help of organisations like CMTI for selection of plant and equipment. At CMTI they have high-tech machines, where in SSIs entrepreneurs can try their production job on these high-techo machines as an alternative to their existing production methods for evaluating techno-economic feasibility of newer method of production even before purchase of these costly equipment at very nominal cost. After this techno-economic feasibility study, they can take a decision whether to go for this newer technology or not. This ensures the entrepreneurs about the profitability of such procurement.

Human Resource Development

Selecting the right person for the right job would contribute for smooth and efficient working of SSIs. After selecting the right personnel on scientific line, it is very essential to train them at appropriate organisations to give them proper training, both theoretical and "on the job" training in improving productivity of SSIs. Training and retraining of personnel (infused as) should be continuous process and invaluable assets of any organisation.

Entrepreneurs should know that it is not machines that work, but it is people behind machine make it work. Government organisations like FTI, CMTI, advanced training Institutes are coming forward in a big way to help SSIs to train the personnel of SSI and should make use of these opportunities to train their personnel to the best of their abilities to use sophisticated equipment to exploit the fullest capability of these high-tech equipments.

Technical Know-how

For doing a job, there are numerous ways of doing it. But there is only one best way of doing it, which is the most cost effective, efficient and highly productive. This concept has not been realised by many entrepreneurs and they try "trial and error" methods, wasting their time, money, energy and other resources. It is better the entrepreneurs should consult/contact organisations who are doing pioneer work in the

areas of technology development and technology transfer. These are organisations owned by Government which are non-profit organisations, established for the purpose of helping industries. It has been found that, many a time entrepreneurs have gone for foreign technical collaborations. These foreign technical collaborators normally give us a technology which is already outdated in their country and try to dump on us (of course that may look new to us in the beginning.) As we get deep into the technology, we find that foreign technology which is already outdated in their country and may not be good enough to compete international market. In addition to this, we have to pay very heavy collaborators fee for the know-how they are transferring. Further, the language problem (for example, Japanese language, German language, Russian language, documents) which need meticulous and correct translation of technical words to give correct meaning to the context.

Other Problems

Regional economic or industrial surveys can identify both the growth points or potentially expanding areas in the country and the industrial projects that are likely to be developed successfully in the areas. This stage should be followed by the preparation of industrial projects and appraisal of all aspects — economic, marketing, financial, social, commercial, managerial, technological and environmental. In other words, a cost-benefit analysis of the projects, including the likely social impact, should be prepared.

The preparation of a project and cost-benefit analysis are, however, highly skilled jobs and the services of experts of consultants and advisers with appropriate skills in more than one discipline may be needed. A further important requirement is the availability of a group entrepreneurs willing to initiate projects, take risks and put in capital (although financing agencies are necessary to help with credit). Obtaining information about technologies available and their appropriateness to the identified projects present a serious problem to the intending industrialists. Thus technical advice, counselling and information become very important. No projects in an area can develop without essential infrastructure, such as, transport, power supply etc. In addition, industrial training designed to impart to the available labour force a variety of skills must also be given priority.

The SSI units are bound to face unequal competition as there are possibilities for the larger units or even the multinational corporations venturing into the same business in which the small units are already in; thus leading to unequal competitions and failure of the smaller units. The larger units with their economies of scale and all related advantages like aggressive marketing and impeccable products designs are bound to fight out the small units.

The non-availability as well as inadequacy of the necessary infrastructure is another problem which is being faced by the SSI units. The SSI sector is wholly dependent on the Government for the provision of the infrastructural base required for the small scale entrepreneurs. Failures and inadequacies in this is bound to have devastating effect on the running as well as profitability of these units.

Militant trade unionism is another serious problem faced by the SSI the SSI sector particularly in the State of Goa. Many a times what we find is that the union instead of using democratic and constitutional measures for redressing their grievances resort to terrorising the small units under the guise of trade unionism.

Problems of Women Entrepreneurs in India

(1) *Need for Achievement, Economic Independence and Autonomy are absent:* Need for achievement, independence and autonomy are the basic ingredients required in a successful entrepreneur but these basic requirements are absent or found in negligible quantities in a women in India. She is held back by her own pre-conceived notions of her role in life. She sees herself only in the image of a perfect mother, wife and house-maker. She is proud to bask in the glory of her husband, father, son etc. This results in a conflict which inhibits achievement, independence and progress. Therefore, when the very urge is absent, how can she be motivated to be an entrepreneur?

(2) *No Risk Bearing capacity:* All throughout her life time, she has led a protected life dominated by the family members. In her childhood, she relied on her parents or elder family members. In her adulthood, she relied on her husband and in laws and again in her old age, she depended on her husband and sons, i.e., at no time has she faced the risk of life all alone. Therefore, she has no confidence to bear the risk all alone. Then how can she be an entrepreneur, when business is nothing but a risk-bearing enterprise?

(3) *Lack of Education:* The overall literacy percentage among females is only 39.3% in India. A woman is discouraged to learn more than the male members of the family. Due to this lack of education, she is unaware of technological knowledge, marketing knowledge etc. Moreover, whatever the bookish knowledge she gathers is not sufficient to meet the various problems in the business field.

(4) *Family Involvement:* In India, it is almost only a woman's duty to look after the children and other members of the family. Man plays a secondary or an insignificant role. Her involvement in family problems leaves very little energy and time to come out of her shell and play a significant role in economic development.

(5) *Male Dominated Society:* Equal treatment to men and women is absent at the family level and social level. When a woman steps into the middle management or top management level, she has to face hostile reactions from her male colleagues, especially from those who are subordinates or at par with her. The male superiority ego complex creates a barrier in the pathway of success. This situation is found sometimes even between a husband and wife and usually under such circumstances, a woman feels pressurised by male domineering ego.

(6) *Lack of Information and Experience:* The lack of information and experience makes it very difficult for her to select technology, market and location, and also to tackle problems related to labour and finance. The Government realising the need and importance of women entrepreneurs' participation in the contribution to the economy has offered some assistance, thereby trying to create a favourable climate for woman entrepreneurs to play a significant role in the rapid development of India.

(7) *Then comes the problem of liquidity and easy availability of finance:* As about half of all informal sector small enterprises world wide are run by women, access to

bank credit is vital for them, since few women have personal savings available for investment. At present, women are just marginally covered by the banking system. It has been estimated that only around 11 per cent of the total borrowings are by women in India. Many factors have been responsible for this inadequate utilisation of bank credit by women, e.g.,

- Inadequate size of loans;
- Margin money requirements;
- Insistence on collateral;
- Time taken to process loans;
- Tight repayment schedule;
- Ignorance of banking procedure due to illiteracy;
- Lack of experience in formulating bankable projects;
- Lack of marketing, accounting and management skill leading to failure of projects and consequent inability to pay loans.

As a result of the above factors, small women entrepreneurs are frequently in debt to middlemen or moneylenders in India, who provide raw material or credit at extremely high rates of interest. To relieve these women from the vicious circle of indebtedness, exploitation and social disabilities and promoting self-employment amongst women, the nationalised banks and other financial institutions provide them credit at concessional terms.

For providing training and extension services to the women entrepreneurs, the Industrial Development Bank formulated a scheme of organising EDPs for the women entrepreneurs. Under this scheme, a subsidy of Rs. 10,000 per beneficiary was provided by the IDBI to cover expenditure incurred on training, post-training follow-up, consultancy and escort services. Further, the women entrepreneurs who have successfully undergone an entrepreneurial programme are eligible for interest subsidy equivalent to the amount of interest payable by the industrial unit for a period of one year, subject to a ceiling of Rs. 25,000 per annum in the case of small-scale units and for medium sector units, the interest for the first six months with a ceiling of Rs. 50,000 is subsidised.

Though many concessional facilities are given for training entrepreneurs for enabling them to start and successfully run commercial and industrial enterprises, by and large, a majority of women entrepreneurs do not bother to keep themselves up-to-date on various incentives available. Commercial banks, too, cannot be said to have been very enthusiastic in equipping themselves for their role in developing women entrepreneurship. To meet organisational deficiency, the Punjab National Bank established a special cell at its head office.

The immediate tasks of the cell are:

- To monitor the progress made by the bank in financing women entrepreneurs.
- To collect and disseminate information to branches about the various facilities given by IDBI and Government agencies to women entrepreneurs.

- To establish liaison with specialised agencies, voluntary organisations, etc. involved in this task.
- To organise entrepreneurial training programme for women entrepreneurs.
- To explore possibilities of bringing about specific schemes for women entrepreneurs.

Some of the important recommendations that were drawn at the AWAKE conference were:

1. There should be better support for voluntary agencies like AWAKE by the State Governments.
2. More awareness programmes should be conducted jointly by development agencies and voluntary agencies like AWAKE.
3. Simple technology demonstrations and training be made available at different parts of the State by organisations like SISI and CFTRI.
4. There should be a State Advisory Committee for development of entrepreneurship among women.
5. Systematic enumeration of women entrepreneurs should be carried out and further registration of women entrepreneurs should have separate coding so that data can be generated without difficulty. Both Commercial Tax Department and the Industries Department should have such coding.
6. The period of EDPs being conducted by various agencies is anywhere between three days to 6 weeks. Only a few of these are recognised for the purposes of incentives. There should be a separate nomenclature for those who are recognised or there should be a clear announcement to this effect as many of the participants in short-term EDPs are now being refused the incentives.
7. The age limit of 45 for training in EDPs should be raised to 50 as many women start their enterprises late in their life at least at this point of time.
8. The employment clause of 50% women should be removed from the definition of women entrepreneurs.
9. There should be a better co-ordination between development agencies, voluntary agencies and financial institutions in putting together entrepreneurship development programmes, as many times the same area or cities have many programmes while others go without any. Instead organisations could work at complementary and supplementary levels. The present State Co-ordinating Committees should look at the pooled programmes of all agencies rather than only those proposed by TECSOK.
10. Preference in Government purchases should be accorded to women entrepreneurs, especially items of downstream supplies.

The present trend does indicate qualitative and quantitative growth in terms of industrial production, exports, investments, modernisation and upgradation of technology, etc., but there is need also to give shape to the policy frameworks adopted till now.

The next decade would witness certain changes in the structure of small industry, if the present developments are any indication. Locationwise, small units would be established outside the metropolitan areas and mainly in small towns or large villages, thus providing more opportunities for convergence of agriculture and industry. The entrepreneurs are likely to play a pivotal role in accelerating the industrial process in the country.

Conclusion

Whether in small industry or large, problems always exist. Some face problems as if they are a challenge because that is the road to advancement. If there is no problem or challenge, we tend to feel complacent, which is the beginning of our degeneration. The problems of small industries should, therefore, be treated in this spirit. This, of course, does not mean that the Government, the local bodies, financial institutions and banks should create unnecessary obstacles in the path of industrialists; nor that industrialists should function in isolation. Rather, they should be increasingly aware of the fact that they are a part of a larger society, each section of which has its own strong and weak points.

In the post-independence period, the Governments at the Centre and in the States have established a number of specialised institutions to cater to the varied needs of small-scale units. These promotional institutions assist all and sundry in setting up small units with a view either to fulfilling their objective or over-reach their target; but they do not ensure the provision of adequate working capital, raw materials, power supply, nor do they help them in developing marketing outlets for the sale of their products. This situation has arisen because of the absence of a meaningful coordination among the concerned agencies.

The entrepreneur needs to re-orient his attitude and develop special leadership qualities necessary for taking decisions based on wider implications rather than trodding the narrow path of urge satisfying action alone. His problem, therefore is one of growing from professional entrepreneur into a professional manager and finally into an administrator in order to successfully come out of the growth crisis which he starts facing once his enterprise grows from a small business into a large enterprise.

The problems of entrepreneurs are multidimensional. These can be solved by the co-ordinated efforts of entrepreneurs, co-ordinated functioning of promotional agencies, and governmental assistance without red tape or bureaucratic delays. The entrepreneur has to be educated; and he should have a proper training in acquiring the necessary skill in running an enterprise. In fact, the entrepreneur is the kingpin of the industrial spectrum.

SICKNESS IN SMALL-SCALE INDUSTRIES — REASONS AND REMEDIES

Introduction

Rapid industrial growth has brought in its wake incidence of sickness in the industrial sector including small-scale industries.

Sickness in industrial units is a gradual process and does not develop suddenly. In the initial stages, it gets reflected in the form of defects and mistakes in the unit's functional areas like production, finance and management. Later it is observed in the form of symptoms like irregular or unsatisfactory turnover in the account, slow and unsatisfactory movement of stocks, decline in production, sales and profitability frequent violation of terms and condition and asking for additional grants.

Definition

The term *industrial sickness* has been defined in a number of ways and its concept lacks uniformity. A sick industrial unit may be defined as one when it fails to generate surplus on a continuous basis and depends on frequent infusion of external funds for its survival. According to the Reserve Bank of India (RBI), a S.I. unit should be considered so if it has "incurred cash loss in the previous accounting year and is likely to continue to incur cash loss in the current accounting year, and has an erosion on account of cumulative cash losses to the extent of 50 per cent of those of its net worth." A unit is likely to continue to incur cash losses for the current year as well as the following year and which has imbalance in its financial structure such as current ratio of less than 1:1 and worsening debt-equity ratio. According to ICICI "a sick industry is one whose financial viability is threatened by adverse factors present and continuing. The adverse factor might relate to management, market fiscal burden, labour relations or any other. When the impact of factors reaches a point where a company begins to incur cash losses leading to erosion of its funds, there is threat to its financial stability."

The sick industrial companies (special provision) Act 1985 identifies sickness in terms of cash losses for two consecutive financial years and accumulated losses

equalling or exceeding the net worth of the company at the end of the second financial year.

The definition of sick SSI units has been modified as under: "A small-scale industrial unit should be considered as sick if it has, at the end of any accounting year, accumulated losses equal to or exceeding 50 per cent of its peak net worth in the immediately preceding five accounting years" (Bihar Chambers of Commerce, Sep. 1989).

An analysis of all the definitions given above indicate that sickness, more or less, has a perfect positive correlation with profitability. Profitability alone can generate cash surpluses for an industrial unit to meet its various obligations to the creditors like financial institutions, the government and others.

Table 47.1
INDUSTRIAL SICKNESS

<i>End of</i>	<i>Sick/Weak units</i>		
	<i>Large & Medium</i>	<i>Small</i>	<i>Total</i>
Number of units			
Dec. 1980....	1,401	23,149	24,550
Dec. 1985....	1,823	1,17,783	1,19,606
Mar. 1990....	2,269	2,18,828	2,21,097
Sept. 1992....	2,427	2,33,441	2,35,868
Mar. 1993....	1,867 *	2,38,176	2,40,043
Mar. 1994....	1,915 *	2,56,452	2,58,367
Outstanding bank credit (Rs. crores)			
Dec. 1980....	1,502	306	1,809
Dec. 1985....	3,200	1,071	4,271
Mar. 1990....	6,926	2,427	9,353
Sept. 1992...	9,241	3,346	12,586
Mar. 1993....	7,901 *	3,443	11,344
Mar. 1994....	8,152 *	3,680	11,832

* Excluding weak units.

Table 47.2
VIABILITY OF SICK/WEAK UNITS
(As at end March 1993)

	<i>Viable</i>	<i>Non-viable</i>	<i>Viability not decided</i>	<i>Total</i>
No. of units....	22,584	214,866	3,250	240,700
SSI sick units...	21,649	213,804	2,723	238,176
Non-SSI sick and weak units....	935	1,062	527	2,524
Outstanding bank credit (Rs. crores)	5,257	5,047	2,830	13,134
SSI sick units...	799	2,507	137	3,443
Non-SSI sick and weak units...	4,458	2,540	2,693	9,691

Extent of Sickness

The number of ailing small-scale units, according to RBI data rose from 23,149 in December 1980 to 2,56,452 in March, 1994.

The number has been increasing year after year, and the malady if not checked, might erode the roots of industrialisation in the country, which is a vital component of the economy of the country. A number of reasons could be attributed for the sickness of small-scale industries in the country, prominent among them being:

- (a) Management deficiency.
- (b) Inadequate and timely availability of finance.
- (c) Outdated technology; and
- (d) Marketing problems.

Causes of Sickness

A. Internal Causes

(1) Planning

(a) *Technical feasibility*

- Inadequate technical know-how
- Locational disadvantage
- Outdated production process

(b) *Economic viability*

- High cost of inputs
- Break-even point too high
- Uneconomic size of project
- Under-estimation of financial requirements
- Unduly large investment in fixed assets
- Over-estimation of demand.

(2) Implementation

- Cost overruns resulting from delays in getting licences and sanctions etc.
- Inadequate mobilisation of finance.

(3) Production

(a) *Production management*

- Inappropriate product-mix
- Poor quality control
- Poor capacity utilisation
- High cost of production
- Poor inventory management
- Inadequate maintenance and replacement
- Lack of timely and adequate modernisation etc.
- High wastage

(b) *Labour management*

- Excessively high wage structure
- Inefficient handling of labour problems

Excessive manpower
 Poor labour productivity
 Poor labour relations
 Lack of trained skilled labour or technically competent personnel

(c) *Marketing management*

Dependence on a single customer or a limited number of customers/
 single or a limited number of products
 Poor sales realisation
 Defective pricing policy
 Booking of large orders at fixed prices in an inflationary market
 Weak market organisation
 Lack of market feedback and market research
 Lack of knowledge of marketing techniques
 Unscrupulous sales/purchase practices

(d) *Financial management*

Poor resources management and financial planning
 Faulty costing
 Liberal dividend policy
 General financial indiscipline and application of funds for unauthorised
 purposes
 Deficiency of funds
 Over-trading
 Unfavourable gearing or keeping adverse debt-equity ratio
 Inadequate working capital
 Absence of cost consciousness
 Lack of effective collection machinery

(e) *Administrative management*

Over centralisation
 Lack of professionalism
 Lack of feed-back to management (Management Information System —
 Lack of controls
 Lack of timely diversification
 Excessive expenditure on R & D

Dividend loyalties (where the same management has interest in more than one unit, cases are known where promoters of limited companies who also own private ownership firms tend to look after the interests of the latter, often at the cost of the former)

Dissension within the management
 Incompetent management
 Dishonest management

B. External Causes

(a) *Infrastructural bottlenecks*

Non-availability of irregular supply of critical raw materials or other inputs

Chronic power shortage

Transport bottlenecks

(b) *Financial bottlenecks*

Non-availability of adequate finance

(c) *Government controls and policies, etc.*

Government price controls

Fiscal duties

Abrupt change in Government policies

Procedural delays on the part of the financial/licensing/other controlling or regulating authorities (Banks, Reserve Bank of India, financial institutions, Government departments, licensing authorities, Monopolies and Restrictive Trade Practices Board, etc.)

(d) *Market constraints*

Market saturation

Revolutionary technological advances rendering one's products obsolete

(e) *Extraneous factors*

Natural calamities

Political situation (domestic as well as international)

War

Sympathetic strikes

Multiplicity of labour unions.

Management Deficiency

It could be said that management deficiency is one of the biggest reasons for poor performance and sickness of small-scale units. The new entrants in the fields of small industries in many cases did not have any prior training or background in management of their enterprises and were adverse to innovations and changes. In the beginning of our industrial development era, this problem was not so critical but with growing sophistication and modernisation of market-requirements for the items produced by the small-scale sector, it has become very important for small entrepreneurs to employ modern methods of management, be it in the field of advanced technology or marketing.

Recent experiences have proved that entrepreneurship is not only an inborn gift, but it could also be cultivated through application and training. American Universities and colleges offering courses in starting and managing a small enterprise. The Carnegie Mellon University of USA is one of the prominent universities offering entrepreneurial training courses. In our country, similar entrepreneurship development training, programmes are organised by organisations, viz., Centre for Development of Entrepreneurs, Gandhi Nagar (Gujarat), Small Industries Extension Training Institutes, Hyderabad, and other units of the Small Industries Development Organisation. The Centre for Development of Entrepreneurs has trained over 6,000 entrepreneurs till recently, out of which around 3,000 are running their own units successfully. The Small Industries Development Organisation has also been helpful in motivating a good number of entrepreneurs of the first generation. Recently, the Government of India has

also established a National Institute for Entrepreneurship and Small Business at New Delhi which would shortly start its own programmes.

Finance

Financial inadequacy is also reported to be one of the most important causes leading to sickness of small-scale units. Undoubtedly, the Government has extended a number of incentives for the growth of small industries and some people feel that these have had negative effect on the small industries. Some others feel that in order to obtain more and more finance and concessions, the small entrepreneur often runs from one agency to another and consequently, cannot concentrate on his industry. There have also been reports that some of these incentives have been misused. However, the discussion here is related to small industries who have genuinely suffered for want of adequate and timely financing facilities. It is well-known that a Committee set-up by the Government of India under the Chairmanship of Prof. A. M. Khusro, Ex-Member, Planning Commission is already looking into the financing/credit problems/needs of small-scale industries and it is hoped that a separate Apex financing Institution for small industries might be recommended. In addition, a separate legislation to protect the genuine interests of small-scale industries, including tiny and ancillary sector, is under consideration of the Government. It could also be expected that the Apex Financing Institution or Bank solely devoted to meet the credit needs of small industries in the country would bring out some hitherto unknown difficulties of the sector and come out with remedial measures to improve health of the weaker small units. The Bank may also provide expertise in guiding small entrepreneurs in their financial management problems and offer preventive assistance to them in case where sickness is anticipated.

Technology

Notable technological innovations and changes are taking place in industrially advanced countries of the world and small-scale industries in those countries are also correspondingly responding by upgrading their technology. For example, use of computers is being made in the design and production of individual components in job shops at costs comparable with costs of mass produced techniques. This has meaningful implications for a country like India, where at present a large number of small and ancillary industries are competing with large industries in a number of common product areas. While fiscal incentives given to small-scale industries are, indeed, of help, the ultimate answer will, of course lie in the small-scale industries upgrading and updating their own technology and skills to meet the stringent within the country and by importers abroad. Small units will have to be technologically modern and price-wise competitive to play a significant role and keep their place in the total industrial structure of the country. In this task, technocrat-entrepreneurs particularly, may have to play a leading role.

There is a misconception in some quarters that modernisation and upgradation of technology necessarily involves costly equipment and labour reduction. While the initial investment cost in modern plant facilities may be somewhat higher, the investment would ultimately result in long-term benefits to economy through higher

and consistent quality and higher productivity achievements. Modern technology also need not necessarily mean adopting automation in every case. In case of small industries, the process of modernisation and upgradation of technology could be undertaken in phases depending upon the resources available with the units. Modernisation would, of course need higher and better skills to operate, maintain and run modern plant facilities to get the maximum productivity. While this might mean less demand for uneducated and unskilled personnel, it would on the other hand create opportunities for many skilled and educated operators, technicians and engineers in modern small industries.

Marketing

The last but not the least, the important factor causing sickness is the small industries' inability to market their products in a systematic way. It is well-known that small-scale industries are mostly one man show or a family business and professional marketing is often not practised in such units. However, it may also be stated that during the last decade and a half, some of the progressive small-scale industries have also realised the need for scientific marketing methods and have therefore organised their own marketing networks on regional and national basis. This is true in some cases of manufacturers of domestic electrical appliances where these small-scale industries have a national network and a chain of distributors and retailers. Some of the large marketing organisations have also been helpful in undertaking the field of the products of small-scale industries mostly in the field of domestic electrical appliances. Such contacts have been educative for small industries in learning marketing techniques from their large-scale partners. In this context, it may be admitted that concept of forming consortia of small industries to share the marketing efforts has not been very successful and effective. A view is often expressed that marketing is purely an entrepreneurial function and the Government should only provide necessary training and other facilities with the financing institutions providing necessary financial help in initiating market surveys and other allied marketing activities.

In this context, it may also be stated that the Government has been quite responsive to the marketing needs of small-scale entrepreneurs producing a variety of items and has reserved over 800 items to be procured exclusively from small-scale sector under the Central Government Store Purchase Programme implemented by the DGS & D. In addition, instructions have been issued to the public sector enterprises and purchasing organisations of the Central Government to provide price preference to the products of the small-scale industries, wherever they compete with large scale manufacturers against tenders floated by the purchasing organisations. While the above measures are indeed helpful in providing some sort of marketing assurance to small scale industries, this meets only a small part of small industries production. For a bulk of their production the small industries have necessarily to depend upon their own initiative, drive and innovations. It is here that training programme in modern methods of marketing will be helpful to small industries in upgrading their marketing technology on modern lines.

Constraints in modernisation

While the need for upgradation of technology and modernisation of production processes and marketing methods is appreciated by small-scale industries, there are certain constraints experienced in bringing about the desired level of modernisation in a definite limited time. These constraints may briefly be stated as follows:

Investment Limits

A view is very often expressed by number of responsible people in various quarters that modernisation cannot be brought out by small-scale industries within the present investment limits of Rs. 3 crore in the case of small-scale industries and Rs. 3 crore in the case of small-scale ancillary units. The investment level of tiny sector has been raised to Rs. 25 lakh with effect from 07.02.97. An opposite view is also expressed that since more than 90% of small units have an investment in the plant and equipment of less than Rs. 5 lakhs any increase in the investment limits would only benefit a very small percentage of small-scale units. Since both points of view have their own merits, the whole question would need to be studied in greater depth to weigh the pros and cons of bringing in an increase in the investment limits of the small-scale industries.

Pace of change in technology

Due to increase in R & D activities, undertaken by industries in the advanced countries, technological changes of far reaching importance are taking place rapidly and small-scale industries often find it extremely difficult to keep pace with these changes. Even in case of foreign technical collaboration from abroad into this country, only such technologies are given which have become partly out-moded in the collaborating countries. Many examples of this type are not difficult to seek in the field of electronics, electrical, automobiles, components, etc. This rapidly changing technology in certain industries in developed countries like USA, Japan, UK and West Germany have often forced them to vacate certain areas of production in favour of developing countries where the cost of labour element is still less. The investment dynamics in the field of electronics have resulted in a large number of US and European countries establishing a part of their manufacturing processing facilities in far eastern countries like Malaysia, Taiwan, Korea, Indonesia and Thailand. Even in these countries there has not been any marked transfer of technology or technology upgradation in the small-scale sector. It has also been experienced in these countries that in most cases, the foreign collaborators have not bothered to upgrade the technology of small or medium sector units. The situation in India is perhaps not totally different.

Technology Vs. Employment

One of the biggest constraints felt in upgrading the technology through automation is the fear that it might result in reduction of labour required. Since employment generation is one of the basic objectives for growth of small-scale industries in India, any proposal to induct modern technology, which would ultimately result in loss in employment, is not likely to be received with favour. Here also perhaps such

industrial activities could be identified where modernisation would not necessarily mean automation resulting in reduction in overall employment in small-industries.

For example, in the field of electronic industry, the technological upgradation, which is continuously taking place, is also providing lot of scope for horizontal growth of ancillary, as well as assembly based industries in small-scale sector providing thereby increasing scope of employment. It is one of the major industries where small industries are thriving. New technologies are also coming in the field of automobiles an area where the scope of ancillarisation is considered to be of a very high order. Instead of replacing labour from the Small-scale sector, the input of technology will provide more employment in the ancillary and auxiliary sectors in these groups of industries.

Inadequate availability of inputs

Another factor which restricts the pace of modernisation is the non-availability of necessary financial, technical, raw material and other inputs needed by small-scale industries for modernisation. Also many small-scale industries would find it difficult to pay the cost of new technology individually and therefore, it would be necessary to identify and design an effective mechanism for import of modern technology in selected fields and delivering them to the needy small-scale industries. There could be several ways for transfer of technology imported from abroad and the large-scale industries in the private sector have to play a very important role in acting as carriers of technology from foreign countries to the small sector in India. An alternative may be to identify a Government Organisation to negotiate and buy appropriate modern technology in selected areas of development and industrial production.

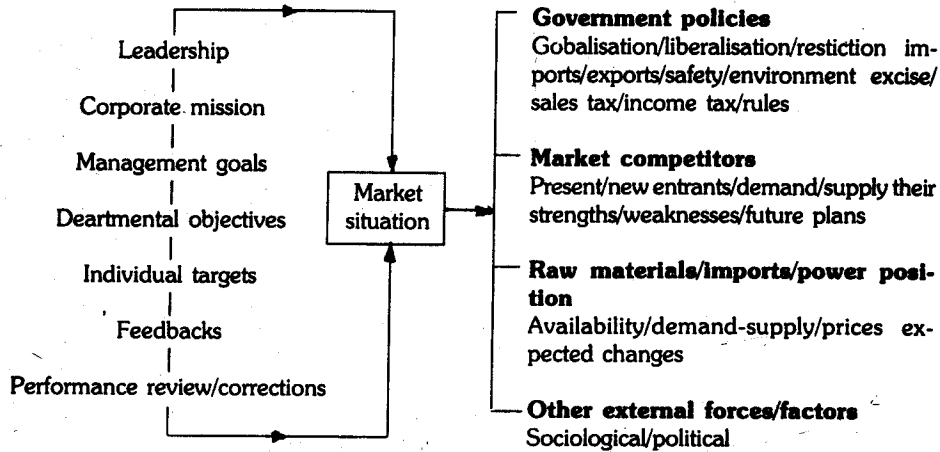
Diagnosis

The normal diagnosis to find out the reasons for sickness starts from a series of interviews with people across the organisational structure. The major purpose of the interviews is to have a detailed insight into the working of the organisation, its strengths and weaknesses, the market situation and also the changes expected over a period of time. The following seven steps will enable a proper diagnosis of the organisational sickness:

- (1) Interview people across the organisational structure (including workers) and the subsidiary structure of unions, suppliers, customers — to have a general feel of the problems that lead to the sickness.
- (2) Hold fact finding sessions with individuals/groups in the middle/senior management level — to list the known/possible factors contributing to the sickness.
- (3) Hold discussions with departmental/divisional heads to assess the nature and depth of the departmental problems (production, quality, conduct of business/routine activities in various departments.)
- (4) Set up feedback/monitoring/audit control systems to periodically assess the performance, deviations and the needed corrections.
- (5) Implement the use of modern management tools, techniques, information technology (cost control, TQM, JIT, inventory control, budgetary control...), to improve the bottomline.

- (6) Plug the loopholes and make up the present deficiencies to achieve optimal production, high productivity, improved efficiencies, lower cost of resources, lower consumption factors and finally better realisations.
- (7) Adopt business process reengineering in an effort to do the "Right Things" effectively and to achieve major breakthroughs in costs, quality and profits. This will help in planning expansions, closing unprofitable units and diversifications.

ORGANISATIONAL STRESS



The tougher the market situation, the greater is the tension on the link chain and the organisational factors.

Fig. 47.1
THE KEY FEATURES OF SICB VIS-A-VIS SICA

<i>Features</i>	<i>New SICB 1997</i>	<i>Old SICA 1985</i>
Definition of sickness	Debt default for four or more quarters in any two successive years to banks, FIs or any other secured creditors	Net worth erosion: i.e., accumulated losses having wiped away paid-up capital plus reserves
Reference to BIFR	Voluntary or optional in case of debt default, but mandatory if net worth has been eroded by 50 per cent from peak net worth (in last four years)	Mandatory
Role of BIFR	Of the nature of a mediator or facilitator	Like a court

Decision-making	Three well-defined time-bound stages before BIFR, failing which liquidation	No time limits Average time for decision-making almost two years
Appellate authority (AAIFR)	To be dissolved. No order or scheme of BIFR shall be appealed against and no Civil Court will have the jurisdiction to grant an injunction to grant an injunction or stay	Appeal against BIFR orders could be made to AAIFR and also high courts
Rights of secured creditors	To vote on scheme, which would deemed to be passed if there is assent from secured creditors representing 75 per cent of the value of secured debt	<i>De jure</i> , to vote a scheme under Section 19(2). <i>De facto</i> , had to often acquiesce to BIFR and AAIFR decisions

Revival Plan

In short, the diagnosis will be a SWOT analysis of the organisation describing the Strengths, Weaknesses, Opportunities and Threats. This analysis will lead us to a meaningful revival plan and will also help in determining the right tools, techniques and remedies to be adopted. It may be emphasised that the revival plan has to be time-bound to achieve the expected changes and results.

The method of planning, defining the objectives and setting up of Targets etc. is the subject of a separate chapter, not dealt herewith. However, the seven steps for the Revival Plan are given below:

- (1) Finalise the goals/objectives/targets for performance at all levels to meet the organisation's mission.
- (2) Issue policy guidelines on major aspects that affect the image of the company in public and the work culture inside the organisation.
- (3) Initiate the preparation of detailed systems manuals for the maintenance, budgets, costs, distribution, transportation, purchase, marketing inventory, personnel etc.
- (4) Analyse past reports on production, quality, costs, performance, accounts receivables etc. and the connected financial and audit reports — to get an overall idea of the present working systems and results.
- (5) Meet senior executives from marketing/finance/personnel/materials/secretarial/legal departments and (if possible) with competitors — to assess the external situations (Govt. policies, competitor's activities, raw materials position, union-political-social factors.)
- (6) Brain storm with a select group — to get creative ideas for improvement.
- (7) Apprise the Board about the diagnosis and request them to spell out a clear "Mission" of the Company.

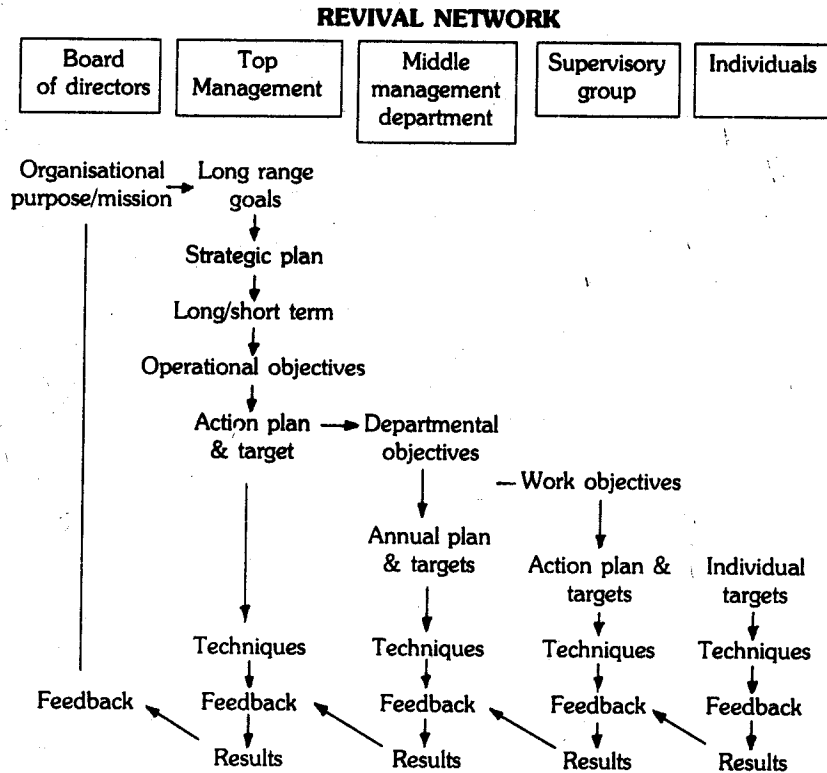


Fig. 47.2

These measures would bring about cost effective functioning of production units.

Institutional Mechanisms

Pursuant to the enactment of the Sick Industrial Companies (Special Provisions) Act, 1985, a Board for Industrial and Financial Reconstruction (BIFR) was set up in May 1987 under the administrative control of Ministry of Finance.

The BIFR has power to prepare rehabilitation schemes for revival of sick industrial companies in consultation with the agencies concerned. Till March 31, 1998, BIFR has received 3148 references. The Board has sanctioned rehabilitation schemes for 625 units, recommended winding up for 579 units and declared 200 units no longer sick.

A sick industrial company has to report its sickness to the BIFR, once its accumulated losses at the end of financial year exceed 50% of the peak net worth attained during the period of four years immediately preceding the financial year. BIFR provides a forum where the agencies concerned are brought together for analysing, diagnosing and evolving a reasoned decision for revival, or otherwise of the sick industrial unit. The agencies concerned are:

- (i) Sick Industrial Unit
- (ii) State Government
- (iii) Banks and financial institutions
- (iv) The concerned Departments of the Central Government.

SICA has invested BIFR with the following powers:

- (i) Potential sickness has to be reported to BIFR;
- (ii) Mismanagement of industrial units by any person can be looked into by BIFR and the BIFR may direct that person to restore the losses; and
- (iii) BIFR can initiate changes in management, amalgamation of the sick industrial company with any other healthy company, sale or lease of a part, or whole of the industrial unit, or any other preventive/remedial measures.

Remedial Measures

(1) Early detection of sickness, it was generally felt, could go a long way in initiating remedial measures for restoring potential sick units to health. Need was stressed for the establishment of a proper management information system for providing early warning signals from within.

(2) Financial institutions and banks should initiate necessary corrective action for sick or prone-to-sickness units based on diagnostic studies. In case of growing sickness, they should also consider assumption of management responsibility where they are confident of restoring a unit to health.

(3) Wherever possible, attempts should be made to restore sick units to financial health. However, where the judgement is that a sick unit cannot be retrieved, it should be allowed to be wound up. The divestment of a sick unit, if desired by an industrial group, for handing it over to someone else with the requisite experience of running such a unit should be allowed expeditiously so that it can be restored to health before the situation gets out of control.

(4) Excessive concern over unemployment resulting from the closure of a sick unit is unwarranted. This can be taken care of through other measures, such as the setting up of a national fund for the purpose and strengthening of the facilities for retraining of workers.

(5) The proposal to set up a special institution — the Board for Financial and Industrial Reconstruction — appears to be a sound one. It should play the role of a single window clearing agency. However, the Board should not be asked to go merely by mechanical indicators to determine sickness in industry. For instance, the criterion of erosion in net worth for determining the seriousness of sickness, although it does indicate that everything is not well with a unit, is not meaningful. Erosion could take place by internal as well as external factors. There is, therefore, no justification for punishing management for erosion in net worth if it is caused by factors beyond its control.

(6) Similarly, the proposal visualising that the management of a unit that has lost net worth in entirety will not be allowed to manage that unit any more, needs to be reconsidered. Before branding the management as a bad one, all the aspects of the case ought to be examined.

(7) The proposal that managements responsible for mismanagement should not be allowed assistance from financial institutions even for new ventures, too, needs re-thinking.

(8) Nothing will do greater damage to the development of the spirit of entrepreneurship in the community than the fear that one is likely to be punished for sickness which is not of one's own market but is the result of lapses committed elsewhere.

(9) It is important that in any scheme of reconstruction of a sick unit, all the stakeholders bear sacrifices on equitable and just basis.

(10) The important criterion for take-over of a sick unit by another company should be whether the company taking over the sick unit has skill, technology and finance to save it. Considerations on MRTTP/FERA accounts should not come in the way.

(11) There is need for a fresh look at Section 72-A of Income-tax Act to remove the inhibition caused to companies taking over sick units by insistence on the part of income-tax authorities for prior full implementation of the revival schemes before tax benefits can accrue.

(12) Debt-equity ratio ought to be realistic. Fiscal policy, too, requires rationalisation.

(13) Incentives should be provided to professional managers helping in reviving sick units.

(14) Treatment of capital-intensive units prone to sickness has to be on a different footing than tackling of sickness in industry in general.

Conclusion

Sickness in industry, especially in the small-scale sector in particular is a cause for concern. The banks, financial institutions and the Government should address to redressal strategies for these sick units. Revival of sick units should be taken on a priority basis.

In the present context, the only healthy way is to nurse these millions of small units for overall progress. This is easier said than done, due to wide gap in enlightened managers. Our employment scenario does not compel the management graduates to serve these units, at least for some initial period, neither do the owners show an openness for such managerial interaction.

A possible alternative is to counsel these units, without hurting the sentiments of the owner at the very first stage. After some success is achieved, trust is built and confidence is created, one can slowly advance and undertake further reform process, always holding the flag as an external catalyst. This will evidently be time consuming, but expected to be result yielding at slow pace.

While conceptualising and designing the coverage of business consultancy for small and medium scale industries, one essentially needs to consider the totality of its dimension, for understanding, acceptance and application by such clientele. Piecemeal advice may not serve their purpose. The idea is to offer turnkey solutions and induce things to happen. Psychological barrier may hinder the process initially, but once the link is established, demand will cross every hurdle.

Analysing the scope of such total counselling, welcome across three principal areas, for need based steering:

- Technical aspects related to present or proposed activity.
- Managerial functions in isolation and integration.
- Commercial proceedings, with applicable rules and regulations.

Once again, it will require lot of expertise and exposures to plan and extend counselling on all these areas, preferably from a single window. For this, pooling of resources will be necessary. A tall order indeed, but there seems to be no short cut.

The empirical studies show that by adopting better practices, right technology, new work culture and professional management, small-scale industries can improve their health and elevate from smaller status. In the process improve the health of the industry as well as of the economy.



UNIT 9

CASE STUDIES

1. Technical Entrepreneur
2. Financial Assistance
3. Project Planning
4. Case Study of a Small-scale Unit

Project work is an important segment of management studies in enhancing knowledge about the subject. It imbibes insight and broadens understand. Project work in industrial and entrepreneurial management is vital factor in gaining practical experience.

The objective of project work is primarily to understand the intricacies of management at first hand. Secondly, to understand the varied concepts, principles, methods, perceptions and values involved in industrial management and nurtured by entrepreneurs through ages.

Project work result in building case studies for analysis, evaluation and corrective steps in fostering development for the betterment of society.

Small enterprises have distinct advantages, both economic and social. Some of these are:

- (a) They create immediate and permanent employment at a relatively small capital cost;
- (b) They meet a substantial part of increased demand for consumer goods, including mass consumption goods;
- (c) They facilitate mobilisation of resources of capital and skills which often would remain inadequately utilised;
- (d) They bring about integration of rural economy with large-scale enterprises;
- (e) They offer a method of ensuring equitable distribution of national income;
- (f) They involve a short gestation period;
- (g) They do not require as heavy and costly infrastructure as the larger enterprises;
- (h) They have a favourable capital-output ratio;
- (i) The products of these enterprises earn a substantial foreign exchange.
- (j) They assist the dispersal of industries and avoid problems which unplanned urbanisation tends to create.

Due to all these advantages, the development of small enterprises has been assigned a crucial role in India's five year plans. With a view to protect, support and promote small enterprises to become self-supporting and to facilitate a balanced growth of small and large sectors, a number of policy and promotional measures have been taken by the government. The policy measures include reservation of certain items for the exclusive production in the small-scale sector, and exclusive purchase under the stores purchase policy, and differential excise duty. Promotional measures have included development of entrepreneurship backed by a package of consultancy services, improvement in techniques, institutional support in respect of supply of credit and raw materials, factory accommodation in industrial estates, capital subsidy, and rebates on the sales of certain products.

With a view to help the students, four case studies are presented here to give an insight into project work.

These four case studies are indicative and the students are requested to build their own case studies after visiting studying industrial enterprises in their locality and gain maturity in understanding the genesis of industrial enterprises in general.

PROJECT WORK

The Scope

The Project Work should be undertaken in the batches not exceeding 5 students in each batch.

- (1) Visit to Industrial Estates and Industrial Areas.
- (2) Study of Problems of Finance and Marketing.
- (3) Visit to training institutes offering training for entrepreneurs in small sector.
- (4) Study of Environmental Problem.
- (5) Influence of environment on the working of Small Industries.
- (6) Study of tax benefits available from time to time.
- (7) Preparation of Project report in relation to opportunities available.
- (8) Preparation of Feasibility report of a project.
- (9) Preparation of Profile of Successful Entrepreneurs — Small Sector.
- (10) Study of sick units (in Small Sector).
- (11) Survey of export-oriented Small-Scale Units.
- (12) Visit to Banks to study financial assistance to industries and analysis of their feasibility.

Why Start Own Business?

This is aptly reflected in replies to a typical questionnaire from an entrepreneurship development institute for prospective entrepreneurs, as follows:

- I want to be on my own.
- Demand is very high.
- For economic gain.
- Status in society.
- Opportunity to serve society.
- Somebody else is doing it successfully.

1. TECHNOCRAT-ENTREPRENEUR

Here is a case of a technocrat-entrepreneur, who took to jobbing through a mechanical workshop. Mr. Saha is one of the first technocrats who were assisted by a bank under its special scheme. He is a highly qualified mechanical engineer, with post-graduate degrees and diplomas in industrial management and industrial engineering from some leading universities of the world, including the famous MIT. He also has had a considerable amount of practical experience in leading companies in the United States, Britain, and India. At the time he approached the bank for assistance to start his own industry, he was drawing a salary of about Rs. 2,500 per month. Quite an impressive background indeed!

The project submitted by Mr. Saha envisaged the manufacture of a stationery item — staple removers — and job work on ancillary items and precision turned and pressed parts. The machinery required by him was: a power press, an Automat and tool room equipment, i.e., a lathe, a milling machine, a shaping machine, a bench grinder etc. The project was estimated to cost as under:

Plant and machinery	Rs. 136,000
Working Capital	Rs. 56,000
Deposit for shed	Rs. 10,000
Total	Rs. 2,02,000

Of this amount, the borrower offered to bring in Rs. 10,000. The bank sanctioned the remaining amount by way of:

Loan against hypothecation of machinery	Rs. 1,36,000
Cash Credit against hypothecation of stock	Rs. 30,000
Clean Loan	Rs. 26,000
	Rs. 1,92,000

The entrepreneur anticipated an annual sales of Rs. 4.72 lakhs with a pretax profits of Rs. 83,000.

Mr. Saha was looking for a shed admeasuring 2,000 sq. ft., for he had an eye on future expansion, although, his immediate need was for about 1,000 sq. ft. However, for quite some time after the sanction of the loan, he could not locate a suitable shed. With permission of the bank, he decided to take delivery of his Automat, to operate which he had adequate job orders in hand, and installed it in a friend's shed as a stop-gap arrangement. Pending the finalisation of the arrangements for his own shed, he shelved his programme to manufacture staple removers.

After a month's working, Mr. Saha found to his surprise and annoyance that most of his products were rejected by his customers. He became furious and let loose his wrath upon his workers. Matters did not improve in the second month either. Soon, raw materials worth Rs. 15,000 were used up and no revenue worth the name was generated. Unfortunately, this particular branch of the bank was deposit-oriented. Initially, therefore, no stock inspection was carried out, and raw material bills were paid without questions. However, the Head Office soon come into the picture, and assisted

the branch in supervising the account. From then onwards, disbursements were made only with the sanction of the Head Office.

Before, the expiry of six operational months, the sanctioned working capital limits had been utilised; but there were hardly any assets except bills receivable. To keep the unit operating, an additional facility of Rs. 20,000 by way of book debts was sanctioned by the bank in January 1972. About this time, Mr. Saha had moved into his own shed on a long-term basis and on a monthly rent of Rs. 1,800. He was now confident that with all the facilities he had, he would have no difficulty in controlling production and that the rejections would not exceed 5 per cent.

However, this was not to be. Rejections continued as before, and the responsibility for these was once again thrown upon the workers. A senior engineer, with a salary of Rs. 1,200 p.m., and inspectors for quality control were appointed. Mr. Saha himself was drawing a living allowance of Rs. 1,500 p.m., plus car expenses. But, in spite of all his care and high expenditure, he did not realise more than 50 per cent of his bills.

The financial structure was crumbling; therefore, in September 1972, his book debt limit was raised to Rs. 40,000. The production picked up to some extent. The monthly output crossed Rs. 20,000, but with heavy overheads, the break-even amount was as high as Rs. 28,000 p.m. The progress in output, however, was maintained for a few months; it even improved a little, touching a maximum of Rs. 24,000.

In the meantime, the customers, of the borrower started delaying the payment of his bills, and the book debts started mounting. The book-debts account was overdrawn by about Rs. 13,000. Finding the units in difficulties once again, and having regard to the slight improvement in the output and confidence in the integrity of Mr. Saha, the book debts limit was raised to Rs. 80,000 in February 1973. At this time, the bank did not have any misgivings about the ability of the borrower to manage the unit successfully. Nevertheless, he was told that this would be his last chance. Till then, 100 per cent finance had been given against book debts. But no margin of 20 per cent was deducted and adjusted against past bills, so that they could be gradually liquidated.

Some time after this, a new situation arose. Mr. Saha lost all his customers, and the unit was starving for orders. But despite the difficulties he had passed through, Mr. Saha refused to economise and change his life style. He was advised to let out a part of his shed, half the area of which was not utilised, move to a cheaper residential flat — he was paying Rs. 900 p.m. — and sell off his car. But this advice fell on deaf ears.

Finally, he managed to enter into a contract for a job with a new customer, who supplied him the raw materials to keep his entire workshop, including the power press, busy for 2 working shifts. Mr. Saha did not initially inform the bank about this arrangement. He thought he had discovered a gold mine and that, in a few months, his affairs would not only be put in order but his debts would be completely paid off. However, during a routine inspection, the new arrangement was discovered by the bank and he agreed to deposit some funds in the account after paying off his day-to-day working capital needs. At this stage, the bank hoped that tide had turned in Mr. Saha's favour.

But alas, this was not to be! The contract with the new party was revoked after about four or five months. Mr. Saha did not communicate this fact to the bank. Again, the situation was discovered during a periodic inspection. At this stage, the bank firmly told him that there was no question of any further assistance to him. He was asked to look for a partner to share with him the responsibilities of the unit. His drawbacks were pointed out to him. Mr. Saha scoffed at the idea; in his over-confidence, he was too greedy to share the fruits of his hard work with someone else. It was several months after the bank had put its foot down that he finally decided to look for a partner. By this time, his liabilities totalled Rs. 4.5 lakhs against a realisable value of assets of Rs. 1.5 lakhs. Who would be foolish enough to enter into a partnership with him at that stage? Naturally, not even his closest friends — not that there were many — would have anything to do with.

By the end of 1973, some of his creditors had filed legal proceedings against him. Somehow, consent decrees were obtained to the effect that he would liquidate his liabilities in instalments. In October 1973, he was so cross with the branch which had patiently borne with him for nearly three years, that he asked for a transfer of his account to another branch. Unluckily for him, the agent there was a tough guy, and Mr. Saha could not cut much ice with him. With the concurrence of the Head Office, he was firmly told that his pressure tactics and arrogance would no longer be tolerated and that unless he changed his ways and showed some positive results without any further assistance from the bank, there was no hope for him.

The question of recalling the advance, filing a suit against him and invoking the RBI guarantee is now under the consideration of the bank. Today, Mr. Saha is a bitter and defeated man.

Let us now try to analyse the causes of the failure of this very highly qualified technocrat, who seemed so promising when the bank sanctioned a loan for him.

- (a) The following points of weakness on the part of the bank can be identified:
- (i) Despite the glittering background of the proponent, the bank appears to have placed too much confidence in his ability to succeed;
 - (ii) The reasons why he had changed jobs once too often in the past were not given due weight before the loan was sanctioned;
 - (iii) The bank sanctioned a project at nil margin (almost), though it was much larger than a small but economical unit;
 - (iv) The marketability of, and marketing arrangements for, his product, viz., staple removers, were not fully assessed. Later, Mr. Saha could not arrive at any settlement with his dealers;
 - (v) The bank's confidence in his ability to succeed was carried too far.
- (b) The following weaknesses of the borrower may be identified:
- (i) He is a very arrogant, self-centered and individualistic person;
 - (ii) His public/human relations are very immature. He could not get on with any one — his workers, his bankers and raw material suppliers and his customers. As a result, he erected a barrier between himself and all he

had to deal with. Obviously he could not depend on the cooperation of his employees, and he could not cultivate any worthwhile relationship with his customers;

- (iii) He was over-confident and used to a life of luxury, and would not economise even in adverticity;
- (iv) He was used to the style of working in large organised companies and tried to apply the same standards in his small-scale unit, with disastrous results;
- (v) He was absolutely unimaginative;
- (vi) Initially, he had not explored the market well enough. When he did get enough orders, he could not fulfil them. His was a case of many opportunities lost;
- (vii) In spite of having qualified in industrial engineering and administration, he did not apply his knowledge to the practical business of running his unit successfully;
- (viii) On at least two occasions, he failed to take the bank into his confidence.

2. FINANCIAL ASSISTANCE

The prime force behind the "small" trading corporation is the major partner, Mr. P.D. Narayana Menon, who had taken to entrepreneurship after achieving the status of an inventor. This is a rare case, where an inventor has successfully converted his invention into a commercial enterprise. The opportunity to assist such an enterprise is unique and may be considered to be prestigious.

Background to the Invention: Mr. Narayana Menon is an employee of Hindustan Petroleum. An inventor is always said to be on the lookout for a solution to a problem, may be of a day-to-day nature. In Mr. Menon's case, the problem was how to pour a liquid from its container into another without the help of a funnel, without spilling and wasting even a single drop. The answer to this question did not present itself to Mr. Menon in a jiffy. Night after night, he worked for into the small hours of the morning in a laboratory which was nothing nobler than the 'mori' of his two-room tenement. There could not be a more appropriate place for playing with liquid — as were.

Mr. Menon's efforts were purely personal. He was not backed by his employers or supported by any institutions or Government. In fact, no one was aware of his activities. When he was successful in his experiments, Mr. Menon mentioned the fact to his employers — a multinational who were surprised. Here was a solution to a problem which they had been looking for a long time. Eminent scientists had failed to come upon the simple device which Mr. Menon had invented. So, Mr. Menon, who was in the company's Accounts Department, realised that the problem was not only his, but that of the entire world. The company placed an order with him for the supply of liquid pourers to fit their containers. It even encouraged and guided him into obtaining a patent for this invention.

History of the Unit: Mr. Menon established a 'small' trading corporation in 1969 to manufacture and sell his liquid pourer, known technically as the safety cap pourer (SCP). He had a set of dies manufactured by an injection moulding unit. At that time, Mr. Menon was mainly engaged in marketing and developing new items rather than in fabricating them. In 1972, however, Mr. Menon decided to manufacture them. So he purchased a machine, but used in the premises of this well-wishers, it was only in 1976 that he took up his present production shed on a rental basis. Till that stage, he had not borrowed money from any source but had managed entirely with his own savings and the small surplus he had put by from his business. During this period, he jealously guarded his patent rights.

The Product: The liquid pourer (SCP) is practically a household and industrial item today. This simple device had been developed suitably for pouring liquid from all types of containers of all sizes and shapes; glass bottles, cans, plastic jerry cans, drums, jugs, and what not. Presently, there are about 20 different sizes and designs in each category of pourers, all of which are protected by patent rights.

The safety pourer plus which Mr. Menon has introduced has a great safety factor in the handling of dangerous liquids. It is a plug-cum-pourer. We are all aware of the plastic plug, which is fitted to the mouth of plastic, glass or metal containers, on top of which there is a cup. First the cup and then the plug has to be removed when a liquid is poured out. Mr. Menon's plug-cum-pourer need not be removed for this purpose. The pesticide industry has taken to this innovation with wide welcoming arms because of the positive safety factor involved in its use. The SCP has been further developed to provide an additional service to stop the flow of the liquid once its desired level has been achieved in the receiving container.

Location and Infrastructure: To fabricate his products, Mr. Menon has acquired a shed in the Bombay Talkies Compound at Malad, which has been patronised by a large number — about 400 — of small-scale industrial units. The shed is an independent structure, with an area of about 2,400 sq.ft. Its monthly rent is Rs. 750. It is made of brick masonry walls up to a height of about 15 ft., and is covered with a roof of asbestos cement sheets supported on a timber structure and trusses. The rent receipt is in the name of Mini Trading Corporation. The electric power bills and receipts are also in the name of the unit. It has a power allocation of 30 HP. The water supply is adequate. There is a nearby well from which supplies are drawn to cool the machines. Drinking water is also available.

Mr. Menon has made an application to the Directorate of Industries for the registration of his unit. The location is suitable for the unit's programme, since the Bombay market is most economical and easily accessible, both for the supply of raw materials and the sale of his products.

Raw Materials: The unit requires high density polyethylene, PVC, rubber, etc., all of which are easily available in the market. The monthly requirement is about 2.5 tons, valued at Rs. 40,000 for the scale of production, which is expected to be achieved shortly. With Indian Petro Chemicals Ltd. (IPCL) going into production, there will be no dearth of raw materials.

Process Know-how: The products are made by the injection moulding process. Plastic injection moulding has become quite common nowadays, and skilled operators to man hand-operated, semi-automatic and fully automatic machines are available in the required numbers. Mr. Menon and his son, Mr. Ramesh, who have now been in this line for more than three years, have adequate know-how. The very fact that Mr. Menon has developed many patented products is a testimony to his technical capability and his inventiveness.

Machinery: A list of the items of machinery installed by the unit is attached. It may be noticed that, as the unit progressed, Mr. Menon has added facilities to his establishment. New machinery was purchased in 1978 in order to meet the sizable orders that are expected following his efforts since 1977. The machinery is a standard product which has proved itself in the market over many years. Its present depreciated value is Rs. 137,679, including the latest addition of a 3-oz automatic machine.

Market: Mr. Menon is so involved in pouring devices that he has become an expert in the field. He has modified the devices to suit the variety of requirements of large companies, mainly multinationals such as Bayer, Cynamide (India), BASF, Hoechst, Sandoz, Rallis India, Hindustan Petroleum, Metal Box, Bharat Pulversing Mills, etc. Since each design has been patented by Mr. Menon, these companies have no alternative but to place their orders with him for their requirements of these products, and their requirements are indeed very large, running into lakhs of pieces. Mr. Menon is now negotiating with other companies as well.

In addition to the above which are for patented products, the Mini Trading Corporation manufactures conventional items of household consumption such as bottle/jar caps, tumblers, brushes, etc. Some dies are under production for the manufacture of pocket torches and bottle openers, which are expected to be introduced in the market within the next three months. The bottle opener will be unique in that it is an item of novelty and will also be the first one available in plastic. All these items have been introduced mainly in the local market through employed salesmen. Mr. Menon has also appointed regional distributors in Delhi, Madras and Kerala. For his household items, he has had under consideration a sales campaign in collaboration, if necessary, with the Tatas, Hindustan Lever, Godrej, Cynamide, Buyer, etc., who market such consumer products as edible oils, petroleum products, household chemicals and pesticides. The nature of the patented products is such that an immense monopoly market can be created for it. The export market is also wide open for Mr. Menon.

Administrative and Managerial Competence: Although Mr. Menon has been in business for more than three years, he has not applied his mind so far to a proper administrative set up for this unit, because his attention was concentrated on product development. Records, therefore, except those needed for financial accounting, are at present practically non-existent. He knows that a proper maintenance of all the records planning to purchase, production, despatches, sales, etc., are essential for a systematic and effective control of the affair of his business. He has therefore turned his attention to this aspect of his enterprise. Already, the financial accounts of the unit are being written up by a chartered accountant.

Inventory: Mr. Menon is a man of many ideas. He has utilised this quality not only to develop new products, but also to improve those items which are already in the market. As regards the latest set of items, he has chosen a strategy to manufacture them in bulk and then release them in the market, so that he will have the initial advantage before others copy his product and cut him down in competition. As a result, he has at present a sizable stock of finished products, which he plans to introduce in the market during the next few weeks. Such item will be released only in the local market and against cash sales, so that the money is quickly realised. The apprehension that the improved product may not have consumer appeal is well taken care of by Mr. Menon, for he places an order for a die for a product only after he has thoroughly studied consumer needs and tastes.

Working Capital: The unit shortly expects to be able to go into full capacity production, considering that substantial orders for the patented items from reputed companies are in the pipe line. On a single shift working, the production capacity of the unit may be estimated at a conservative figure of Rs. 60,000 p.m. The working capital requirements for this level of production may be estimated as under:

	<i>Rs.</i>
Raw material stocks — (1 month)	48,000
Goods in process, packing materials, etc. (1 week)	12,000
Finished stocks — (15 days)	30,000
1 month's recoverable (peak level) —	60,000
Total working capital	<u>1,50,000</u>

Working capital assistance to the unit may, therefore, be provided as under:

<i>Facility</i>	<i>Limit</i>	<i>Margin</i>
Pledge of stocks	Rs. 1,00,000	20% on materials
Bills Purchase — Usance 30 days (acceptance)	Rs. 50,000	30% on finished goods 10%

Raw materials are purchased on cash and hence there is no purchased credit. This estimate is based on a production level of finished goods of the sales valued at Rs. 60,000 p.m.

3. PROJECT PLANNING: A CASE STUDY

Setting up one's own business is no easy matter. From the start the entrepreneur-to-be is pitilessly confronted with the many problems inherent in the initial phase. Many are inadequately prepared and quickly fall by the wayside; indeed, enthusiasm alone is no sufficient guarantee of success, as business demands a professional approach and admits of no improvisation at the beginning.

In recent years, resources have been allocated to help ease the independent company through its early stages, and interesting initiatives to promote small-scale enterprises have been taken by both the authorities and the private sector in Belgium, as well as in neighbouring countries; among the initiatives have been the provision of

small business centres, sponsorship and consultancy help, as well as the offering of financial spurs. The article reviews and weighs up these endeavours, though not before first briefly taking a look at the consecutive initial stages of a small enterprise.

The Scenario for Starting a Business

According to the degree of specification, the process of establishing a small enterprise can be broken down into various stages, the official start of the business thereby being considered as the resultant of previous negotiations and decisions.

There is no doubt that a variety of personal motives and external factors play a part in the decision to set up in business. In practically, all surveys, however, the same key elements return, namely, the desire to achieve something, the wish to be creative, freedom and independence, while financial earning and profits are usually deemed to be of less importance as initial incentives. Besides this, there are also factors which, right from the start, work against any decision to establish a business, for example, the not infrequent negative attitude of parents and family or even of the other entrepreneurs, adverse social status, the lack of security (an important consideration for those working or involved in the management of a larger company) and the financial risks. For all these reasons, becoming an entrepreneur remains, for many, limited to vague intentions and desires.

A minority take the plunge, their urge expressing itself in a concrete formulation of ideas. The incentives to establish a new enterprise ideally finds its origin in the development of a new product or in identifying a gap in the market. Opportunities continually arise for young Small Manufacturing Enterprises (SMEs), given that big industries ignore particular branches as they are interested only in products having a considerable market or because they deem the commercialisation of certain products to be incompatible with their corporate strategy. Moreover, because of negative effects of scale, some commercial activities, production processes or services are better performed by small companies.

But before even the most promising business idea can be put into practice, it has to be tested for *feasibility*, implying that the potential market should certainly be plumbed. Following a positive result, a *business plan*, which includes a commercial and financial plan, is worked out. According as the starting-up process progresses, moreover, the tasks become more specific. Gradually, a definitive stage is reached, i.e., negotiating with financial institutions, identifying interested purchasers or suitable subcontractors and deciding on a location for the business. Probably the least exhilarating but nevertheless necessary task is to take care of the various administrative requirements (the notarial act detailing the form of company chosen, application for the VAT number, the trade register entry; arranging Social Security status, etc.). Their completion can be taken as the definitive signalling of the new enterprise's start.

The Big Help the Small

One of the most tangible hindrances to establishing new enterprises is the shortage of sufficient *starting capital*. Understandably enough, the banks and other traditional money lenders regard the often very high initial risks askance; indeed, normal lending to existing companies already entails sufficient risk and eventually, has always to be

practically completely financed with risk-shunning capital, i.e., deposits and medium-term bonds. Too great an accumulation of risk on the assets side of a bank's balance sheet, therefore cannot be justified. Promising new entrepreneurs can expect help from venture capitalists. These last wittingly attempt to obtain stakes in young or fast-growing companies where the risks may be high, but so too is the potential medium-term profit accompanying them. Financial resources are usually made available in return for shares, thus making a full partner of the venture capitalist. The original initiators receive founder or deferred shares in order that they should identify themselves to the utmost with the economic interest of the company. Subsequently, after 5 to 10 years, the venture capitalist sells his stake so as to collect, via the gain in value that has meanwhile accrued if the project has been successful, a considerable profit in return for the risk taken.

To surmount the problem of finding starting capital, there is, moreover, the not-to-be ignored *government aid* in the form of subsidies and fiscal advantages. For the government, indeed, a person setting up on his own represents an improvement to the unemployment figures and a means of promoting economic growth, and young jobless establishing themselves as self-employed have the possibility of calling on a special subordinated loan. This loan represents an advance on the unemployment allowance that they would normally receive over a period of 3 years, though upto a maximum of BEF 500,000. In passing, it should be said that it is also possible for those out of work to set up as self-employed while retaining their right to unemployment allowance should their enterprise not be successful within the space of 6 years. Moreover, and not just for the unemployed, there is Waaborgfonds (Guarantee Fund) which can act to make up any shortfall in guarantees vis-a-vis credit institutions. Thus, a loan that appears initially impossible to extend because of overgreat risks can indeed be granted. Naturally, besides this there are still the interest subsidies and capital investment grants, provincial allowances, etc. Among other things the fiscal measures include a deduction for investment, accelerated depreciations, exemption from the obligation to pay tax in advance and a benefit on the first employee being taken on. Many of these measures stem originally from the government's concern for existing SMEs, but, usually, new enterprises can also make use of these facilities.

Many young entrepreneurs who have successfully negotiated the financial hurdle very quickly find that they lack *management experience*. Large firms wishing to pass on part of their *corporate culture* can make a contribution here, examples of this being found in other Western European countries. Thus, in the UK, the private sector makes a substantial contribution to the growth and success of SMEs in the process of starting up, and in the local enterprise agencies, big companies work closely with the local authorities to encourage the creation of new small-scale businesses. Much is done, besides, in the way of support, whereby the big companies conduct the new SMEs through the difficult phase of starting and expanding — in other words, a sort of active sponsorship. Thus, since 1979, the London Enterprise Agency has given help to already more than 2,000 enterprises; more than 700 new companies have been set up, leading to 3,000 new jobs. Similar initiatives have been undertaken in the Netherlands, among others the 'Kleinoed' foundation which was established at the end of the Seventies and with which 251 large companies are involved; so far, about 400 small concerns have been given management advice.

Support, in fact, can take various forms. Sponsoring companies can make experienced members of their own staff available or the entrepreneur can follow the training courses organised by these companies for their own personnel; further, support could be legal, administrative, commercial or financial. Examples are legion: help in obtaining subsidies, in applications for patents, in the drafting of international sale contracts, etc. It is often the case that the young entrepreneur puts too much emphasis on technical know-how, and therefore, to this will be added an awareness of market aspects, as well as a common sense approach to budgeting and financial planning.

From the supporting firm's angle, all this is usually done in understandable self-interest. Big and small complement each other, and this provides the larger company with flexibility in eventually contracting out work and the opportunity to follow the progress of such work closely. What is also fine about this approach is that the staff of the larger firm who are providing the expertise come into contact with the spirit and daily work of entrepreneurs. Lastly, sponsorship gives large companies the opportunity to polish up their social image. Nowadays, the big firms are no longer able to provide much of a boost to employment — on the contrary — and therefore sponsorship provides a counter-weight to this.

Small Business Centres

Active SME sponsorship is something that lends itself to development at local level so as to stimulate local activity. A somewhat different approach to getting new enterprises off the ground is that within the framework of the so-called small business centres, a concept which, like others, has been imported Belgium's neighbours (Great Britain, West Germany, The Netherlands). Such a centre can be described as a collection of small business areas under one roof, which are put at the temporary disposal of entrepreneurs just setting up on their own. The actual premises can just as well be a disused industrial building as custom built, and besides this are provided communal services and utilities such as telephone, telex, secretariat, reception and conference rooms, the practical and most intangible advantage being the cost-saving. Every concern has a number of minimum requirements which can be a considerable burden in the beginning, but cannot be done without; in a small business centre, however, these initial operating costs are kept to a minimum, there being no overburdensome commercial rent to pay, but a cannot modulated price as well as a flexible system for giving notice. The entrepreneur is charged a reduced rate for communal services, and then only for those made use of (typing, translation, despatch, etc.). At the same time, the whole bestows a professional cachet on the enterprise.

However, a small business centre has still more to offer, as there is also the permanent presence of a manager who takes care of the professional organisation of the centre and provides expert device for the resident enterprises. These latter operate autonomously, but can always refer their problems to the coordinator who gives advice on the basis of his own experience or calls on well-disposed companies or on institutions at the disposal of the self-employed and SMEs. Lastly, maximum period of residence is sent in advance for the companies in the centre.

The first small business centres have now been established in Belgium (Kortrijk, Bruges, Zaventem) and there has already been a decision in favour of setting up centres

in the provinces of Antwerp and Limburg; others are expected to follow. Projects currently under way depend on co-operation among government institutions, semi-public bodies and the private sector; the respective Regional Development Companies normally take a minority participation in the starting capital of the small business centre, while the remaining resources required are provided by private companies, financial institutions or semi-official bodies.

Up to now, the 'Naamloze Vennootschap' (Limited Company) has always been adopted as the legal form for the co-operation between the various partners, and it is the aim that the initiatives should be at least self-supporting, otherwise they would set a sorry example to the firms being given guidance. For backing, the centres in Flanders can count on the co-operation of the Flemish Regional Government (maximum support for expansion, exemption from withholding tax during a period of five years, accelerated depreciations). For budgetary reasons and to prevent uncontrolled growth, the number of participations for each Flemish Regional Development Company is restricted to four. Recently too, the first small business centres supported entirely by private initiative have been set up.

A variant to this type of centre is formed by the Business Technology Centres where the emphasis is placed on co-operation between science and industry. Such research parks are mostly established in the vicinity of universities or high schools and naturally enough concentrate on high technology (microelectronics, telecommunications, biotechnology); one or two such centres have already set up in Belgium.

Experience gained so far in business centres abroad is positive, small craft companies in particular, taking advantage of the opportunity offered them. Nevertheless, neither in Belgium nor in other countries, has there been much analysis of the effects on long-term employment which would normally follow from such an initiative; indeed, no details exist about companies once they have left the centre. It can be taken, though, that many small companies have been able to weather the difficult early years better because of their having passed them in a small business centre, whereby the chances for a successful continuation to the venture are considerably enhanced.

Too Much of a Good Thing?

Besides the initiatives already mentioned, there are also the 'support cells' for the newly self-employed, established by some Chambers of Commerce and Industry. Universities too, make people available to provide expert help. In addition, there are the training centres and trading class organisations, the many training seminars, information meetings, colloquia, etc., clearly no lack of well-intentioned initiatives.

In the case of substantial subsidizing and government aid right from the start, there is inevitably the risk of distortion and disturbance of normal competition; such bounty to people just starting up does little to further the interests of those already established. However, the consequences of such distortion need to be evaluated at sectoral level. In branches of industry, with high entry barriers, subsidizing new entrants can contribute towards healthy competition.

Another danger presented by government subsidy is that the incentives produce other than the expected effects, with those on employment being more felt among consultants, subsidy and fiscal experts and government services rather than at the level

of new entrepreneurs. Moreover, the exact group aimed at is often not reached just by providing subsidies. By definition, becoming an entrepreneur is for motivated people who dare; escaping from unemployment appears to be a rather weak motive for setting up one's own business. Besides this, quick-witted newcomers will adapt their planning to the subsidies they can draw, whereas it is market conditions that ought to be the decisive factor.

Finally, the government has little apparatus to test the efficiency and efficacy of its aid; relevant statistics are too sparse and, moreover, the government itself appears hardly to be interested in thorough testing.

A last objection is that the apparatus for instruction and advice threatens to lose somewhat in efficiency as a result of the gradual blurring of the structure and the multiplicity of the bodies active in it. Before long, the newly self-employed will have to make their own market analyses to determine the best and most interesting form of support!

Towards a More Integrated Setting up Policy

The value of some local initiatives does not lessen the need for a *general stimulative policy towards enterprises just getting underway*. What is needed in the first place here is macroeconomic situation wherein the entrepreneur can find sufficient new, attractive opportunities. Further, there have to be enough potential entrepreneurs possessing inventiveness and market insight; this is not just a question of training, but more of the value society places on entrepreneurship, implying climate benevolent towards business and a reasonable return on risk capital. It is only when these requirements are satisfied that the need for support and advice has to be considered.

Nor can a policy for setting up new companies be divorced from one for winding them up. Obsolete companies ought no longer than necessary hinder the progress of young enterprises, while government aid to moribund companies is usually no more than a waste.

This does not complete the list of *favourable contextual factors* to be striven for. There are a number of positive facts relevant to this to be perceived, for example, the efforts being made to give a new suitable legal form to the small company. The present government is contemplating the introduction of the 'one-man business with limited liability', a difference being made between what is personally owned and what is working capital, implying the protection of personal goods in the case of bankruptcy. A (modest) start has also been made with doing away with the suffocating administrative red-tape-indeed which entrepreneur or entrepreneur-to-be is not discouraged by the labyrinth of rules and regulations? In France, recently, the administrative obligations to be complied with in setting up a company have been drastically reduced, as has been the time previously required to give legal form to the company in the process of starting up. Among other factors liable to reform in Belgium are the Social Security status and the law relating to commercial practices.

Too Much Made of the SME?

A wind of change has been blowing for some years now, revitalising the entrepreneurial spirit. Entrepreneurs are being feted and the prizes for the most

successful among them are exceeding all bounds, the enthusiasm applying particularly to small concerns. Politicians and entrepreneurs sometimes was lyrical about small and medium-sized firms, descriptions such as 'dynamic', 'creative' and 'human' being frequently bandied about.

SME advocates point fervently to reports about successful newcomers to Silicon Valley, but it is easily forgotten that the concept 'small and medium-sized' has a much wider meaning overseas, companies with less than 1000 employees also being considered as 'small businesses.' However, to bestow a similar revitalising role on Belgium traders and SMEs exhibits a certain over-optimism.

On the other hand, this is not to detract from the fact that small and medium-sized enterprises will continue to fulfil an essential and irreplaceable role in Belgium's social and economic system.

4. CASE STUDY OF A SMALL-SCALE UNIT

M/s NCL (This is true case study of a small-scale unit which was sick because of various causes. The unit was rehabilitated by the entrepreneur with the help of Government departments and his bank. This case study reflects on the positive characteristics of the entrepreneurs and their role in nursing sick units. In fact, the entrepreneur is the kingpin in nursing a small-scale unit and bringing it back to health and vitality. The case study shows that the entrepreneur is responsible for turning a healthy small-scale unit into a sick unit and that he alone can revive it by following the right path. In fact, the health of the unit solely depends upon the entrepreneur himself.)

Background

The NCL was established in 1971 to manufacture cosmetic and beauty products. It was promoted by two persons: one a technocrat, and the other who had experience in general administration. Its factory-cum-office was located in a rented shed in an industrial assistance by a public sector bank — Rs. 40,000 for the purchase of machinery and Rs. 80,000 for working capital. The advances were guaranteed by a marketing executive of a big business house in the cosmetic line. In 1973, the technocrat Director resigned and the son of the guarantor joined the NCL as Director. In 1974, the other original Director also resigned.

Irregularities

The NCL had not submitted any financial statements to the bank, which could not, therefore, review its performance. The bank account became irregular; and in the absence of any review, the bank did not extend further credit facilities to the NCL. But the latter carried on its skeleton production activities by availing itself of certain credit facilities from another bank.

Later, the advances of the second bank were adjusted on persuasion by the original bank. In 1976, the guarantor to the bank's advances, on retirement from his executive post, joined the NCL as Executive Director and assumed complete control. The balance sheet submitted by the NCL, as at December 1980, read as follows:

BALANCE SHEET*(Rupees in thousands)*

Share Capital	253.00	Fixed Assets	46.00
Bank Loans	106.00	Stocks & Debtors	104.00
Loans from Directors and Shareholders	104.00	Deposits/Advances	22.00
Other Loans	60.00	Accumulated Losses	373.00
Creditors	10.00		
Sales Tax Payable	12.00		
	<u>545.00</u>		<u>545.00</u>

Erosion

The owners' funds of Rs. 253,000 and their loan of Rs. 104,000 were completely wiped out as a result of the accumulated losses of Rs. 373,000. Assuming that the assets are worth the values attached to them, losses of Rs. 16,000 were carried to the creditors other than the owners of the company.

The NCLs liquidity position was glaringly negative, mainly because of accumulated losses and investment of short-term funds in long-term assets.

The causes: In the light of this background, the causes of the sickness of the NCL are diagnosed. It was evident that:

(i) NCLs Directors were not conversant with the selling techniques of the products they were manufacturing. Selling in the cosmetic industry calls for a sophisticated strategy. About four initial but crucial years were lost, during which its management did not come to grips with its marketing problems.

The NCL, had anticipated a spurt in its share of the market as a sequel to a purported change in the Government's policy of easing out the giants in the line. But this policy did not materialise.

(ii) The Directors who promoted the NCL did not possess the requisite degree of perservance to withstand the crises which normally arise in any new unit, but which are particularly acute in a unit entering the cosmetic product line as a small unit.

(ii) Four products formed the product range; but there was no proper planning. Lack of planning was noticeable in production and in marketing, and in different batches/types of production.

The Rehabilitation Plan: The new Executive Director, with his vast experience and down-to-earth approach to the problems faced by the company, was able to secure orders to run the factory at an operating level which would enable the NCL to cover the cost. Realising the limitations of his company, he changed the strategy of selling his products.

Taking advantage of the liberal concession of the Government for the encouragement of small-scale units, he concentrated on Government departments for orders. Ultimately, the new Executive Director succeeded in securing small orders from Canteen Stores Department. The value of the order was expected to go up to Rs. 30,000

per month. At this stage, the Executive Director of the NCL received further financial support from his bank.

Financial Assistance

The bank promptly extended Rs. 54,000 and agreed to further extend finance up to Rs. 80,000 on the basis of a fresh appraisal of the working capital requirements for the execution of the new orders. It also agreed to convert the outstandings in the working capital/cash credit account into a term-loan account repayable in easy instalments. However, it wanted the NCL to feed it with information on its performance on a regular basis to enable it to monitor the account.

The building up a reasonable internal information system — the maintenance of proper books of accounts, production, and stock and sales data — was made a part of the rehabilitation plan.

The fulfilment of this condition resulted in cost to the unit; but the cost was considered to be unavoidable, for it was necessary to keep track of the direction in which the unit was going. The latest results indicate that the NCL is out of the wood and is on its way to health.

Entrepreneurial Characteristics: This brief review of the NCL's history indicates that it had entered a very sophisticated industry, but its management was nowhere near the task. Marketing was its main problem.

The unit's Managing Director did dream of becoming industrialist; but the path leading to the destination was too strenuous to tread; and he was not prepared for it. Certain characteristics of the owner-managers of this unit are worth noting.

They were possessed of the need for achievement. This is evident from the fact that the owners, who were earlier in employment, left their jobs to set up an industrial unit. It is reasonable to infer that they did this on perceiving the environmental opportunities, including the encouragement of the small-scale industry on the part of the Government, the credit facilities available on easy terms from financial institutions, and the likely change in the Government's policy which was likely to favour smaller units in that particular industry against the larger ones. The owner-managers also showed the ability to accept challenges and take risks.

However, they were lacking in certain entrepreneurial characteristics, which are very vital for the success of a cosmetic unit. One such characteristic was the need for involvement. When they encountered problems in the implementation of the project, the original Directors started leaving the unit one by one.

They were also lacking in confidence to succeed in the business. They accepted the challenge; but they did not have the capacity to face the turmoil of business activity.

In other words, the commitment to the project and perseverance in seeing it through thick and thin was lacking in the project sponsors. An entrepreneur should possess the characteristic of changing his environment, or he should believe that he is capable of living with it. Openness to feedback on project implementation, say from banker and well-wishers, was yet another characteristic which the owner-managers did

Sufficient hints had been available from the financing bank that something was wrong with the implementation of the project. But the unit reacted to these hints by going to another bank for assistance. Moreover, the approach and the manner of working of the owner-managers were similar to the traditional executive pattern rather than that of a small entrepreneur.

Because of all these facts, the weaknesses inherent in the project had not been evaluated realistically in the initial stage. The reality is that a small-scale industry entails work for 24 hours a day. The deficiencies observed in the initial owner-managers were taken care of by the present incumbent; and that is the prime reason for unit's recovery from sickness.

The NCL entered a sophisticated industry to produce shampoo, shaving cream, hair oil and white tooth powder. The challenge in the marketing of these products in competition with large established companies, including a few multinational corporations, should not have overlooked at the project-idea-stage.

The Industry

The NCL started entering the consumer market by trying to sell through the sales points-dealers-in competition with large units in different parts of the country. But its ability to open sales points through the dealers proved to be grossly inadequate. Moreover, it could not match the resources of the giants in advertising campaigns and other marketing strategies.

The marketing strategy should have involved a publicity campaign and a simultaneous opening of sales points. This could not be done by a unit whose resource base was abysmally small.

The marketing strategy followed by the resourceful units in the industry could not possibly be adopted by small units like the NCL. This was realised by it very late — only when the present incumbent took over charge. That is how he turned to the Canteen Stores Department of the Defence Department for rescue!

The present owner-manager's attempt to push sales through departmental stores like the Janata Bazars proved to be costly, for his presence could not be ensured at the production point at his factory and in the department stores.

The appointment of salesmen was futile because inexperienced persons cannot accomplish this task; and the NCL could not attract experienced persons.

The Strengths

The quality of the products was comparable to any in the industry. There were no major production or technical problems.

The sincerity and the integrity of the owner-managers could not be questioned. Apart from wiping out the capital brought in by the owners as a result of accumulated losses, they never attempted to divert funds from the business.

The overhead expenses, especially of the owners were kept at the minimum possible level. In fact, the present incumbent injected fresh funds by way of deposits in the name of his wife (who is also a Director) on a reasonable rate of interest.

