

A STUDY ON FINANCIAL PERFORMANCE OF SMALL-SCALE INDUSTRIES: A STUDY WITH SPECIAL REFERENCE TO BANGALORE CITY

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Abstract—Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socioeconomic development of the country. The Sector consisting of 36 million units, as of today, provides employment to over 80 million persons. The Sector through more than 6,000 products contributes about 8% to GDP besides 45% to the total manufacturing output and 40% to the exports from the country. The MSME sector has the potential to spread industrial growth across the country and can be a major partner in the process of inclusive growth. This paper closely analyses the growth and development of the Indian Small-Scale sector since opening of the economy in 2001. It also looks the present Scenario of MSMEs. Based on above background, the researcher has tried to analyse the "Growth and Performance of Small and Medium Scale Industry in India.

Keywords—Economy, Exports, Small and Medium Enterprises, Small Scale Industry, Socio Economic Development.

INTRODUCTION

Karnataka is one amongst the industrially developed States in the Country. The State has all potential to stand out on the fore front and has been focusing on development of industries, trade, and service sectors. The State Government understands that the challenges poised due to global economic recession have to be addressed to promote economic growth of the State. A stimulus to boost economic activities needs to be given to sustain the current pace of overall development. Further, the State is endowed with rich natural resources across the State and such resources need to be optimally utilized for the benefit of local people. Value addition to resources is one of the ways of optimizing the wealth available locally. This will also help ensure uniform spread of industries and economic activities throughout the State and will accelerate the pace of development especially in the districts of North Karnataka. Through these measures, the Government would be able to readdress the serious issue of regional imbalances in development. The State Government realizes the limitation of agriculture sector to generate large scale employment to the local youths. About 56% of the State's workforce is estimated to contribute 19.13% of the GSDP. It is the agreed fact that, the manufacturing sector has high potential to create maximum employment that too, to all sections and levels of job aspirants. In order to provide enabling environment for investors, the State government has already enacted Karnataka Industries (Facilitation) Act, 2002. Due to the progressive measures and pro-active mind set of the Government, today, Karnataka has been recognized as one of the preferred investment destinations both for domestic an investor. The State Government has introduced Industrial Policy 2006-11 with an aim to increase the growth of GDP, strengthen manufacturing industries, increase share of exports from Karnataka, to generate additional employment of at least 10 lakh persons in the manufacturing and service sectors, reduce regional imbalance and ultimately aim at overall socio- economic development of the State. In the meantime, the Government of India enacted Micro, Small and Medium Enterprises Development Act, 2006 and requested all the States to provide required support and encouragement to make MSMEs more competitive. In order to make the State more attractive and investor friendly, there was a need to focus more on inclusive industrial development, comprehensive HRD

programmes, special attention towards development of sector specific zones, classification of taluks according to Dr. D M Nanjundappa Committee Report, attractive package of incentives and concessions, encouragement for existing industries to take up expansion, modernization, and diversification etc. The State also understands the need to provide stimulus measures for industries to combat the prevailing financial crisis. Keeping these points in view, the State intends to formulate a new Industrial Policy with a determination to provide level playing field to all investors. This policy is framed with the broad guiding principles of creation of employment, development of backward regions and value addition to local resources.

REVIEW OF LITERATURE

<i>S.No.</i>	<i>Author</i>	<i>Title</i>	<i>Focus/Findings</i>
1.	Dieter Biehl (1980)	“Determinants of Regional Disparities and the Role of Public Finance”	Finds empirical support for the positive relation between regional disparities in development levels and variations in levels of public infrastructure.
2.	Canning (1999)	“Infrastructure’s Contribution to Aggregate output”	Attempt has been made to estimate the general productivity of infrastructure. The outcome of this study is that investment in some of the specific infrastructure would increase the productivity manifold.
3.	Looney R. and Federicksn (1981)	“The Regional Impact of Infrastructure Investment in Mexico”	Tried to examine the effects of investment in infrastructure on GDP concluded that economic and social infrastructure had significantly positive parameters in economic development.
4.	Antle, John M. (1983)	“Infrastructure and Aggregate Agricultural Productivity: International Evidence”	It was found that the contribution of a country’s infrastructure services in agricultural productivity is significantly positive both for developing countries alone and for a mixed sample of developed and developing countries.
5.	M. Ishaq Nadiri and T.P. Mannun eas (1994)	“The Effects of Public Infrastructure and R and D Capital on Cost Structure and Performance of U.S. Manufacturing Industries”	Examined the effects of public infrastructure on the cost structure and performance of the US manufacturing industries using data for 12 different industries. They concluded that increased availability of public infrastructure lowered the cost structure of manufacturing industries. This would lead to expansion of output and employment, increase in disposable income level and overall economic development.

IMPORTANCE OF THE STUDY

Banks and financial institutions willing to give financial assistance to small enterprises are compelled to follow the rules and regulations. Some of the small-scale industries face the challenges in getting loans from the banks and financial institutions. These SSIs need to resort to high cost, non-continuous financing from money lenders and other informal sources or continue to operate their business at sub-scale. Banks charge an interest rate of 10-20 per cent, compared with 36-70 per cent from informal sources like money lenders. On the other hand, lack of education on the part of SSI owners and inadequate facilities in agricultural, purchasing and supply sector has been a big challenge to SSI’s. Especially, the problem facing SSI’s as inadequate funding on the part of the public sector commercial banks and other financial institutions and poor management on the part of small business owners. The questions arise, whether the public sector banks are providing timely or sanctioning the correct amount of loan to SSI’s or not? Do the industries are getting easy access of working capital credit facilities? Whether loan policy and method of lending adopted by Public sector banks is beneficial and convenient to SSI’s? Whether financial Schemes which is offered by the public sector banks is satisfactory? These issues need a detailed study and hence this research will be undertaken.

NEED FOR THE STUDY

The reason why this study has been undertaken is to evaluate the current financial knowledge of the respondent small scale industries (SSIs), and by means of the study findings and recommendations made, make an impact on small

businesses regarding their performance measurement as a whole and financial performance in particular. The researcher also hopes that the study will contribute to filling the gap in the literature regarding financial performance measurement in SSIs.

STATEMENT OF THE PROBLEM

The problem to be investigated in this study is the financial performance measures currently used by small scale industries (SSI) in Bangalore city. The study will mainly explore the financial tools these SSIs use to measure their financial performance. The main objective of any company is the creation of wealth for its stakeholders (although this mostly applies to shareholders). This means that progress needs to be measured. This progress is measured mainly by means of financial performance measurement since such measurement shows the cash flow, debts, profit, etc. of the company. Measurement is done by means of financial ratio analysis and interpretation. Analysis assists in identifying on the one hand the major strengths and opportunities of a business enterprise and on the other hand, weaknesses and threats facing the enterprise. An analysis indicates the level of efficiency, i.e. liquidity (cash holdings against obligations), debt management and adequate capital structure.

OBJECTIVES OF THE STUDY

- i. To identify financial tools currently used by SSI's in measuring their financial performance.
- ii. To recommend necessary improvements on financial performance measures used by SSIs.
- iii. To recommend necessary training interventions that would be needed for SSIs to successfully measure financial performance

SCOPE OF THE STUDY

This research work is designed to cover the contribution and role played by public sector banks in financing small scale Industries in India. Selected public sector banks are considered for the study and they are SBI Bank, Canara Bank, Indian overseas bank and Vijaya bank. Opinion of the Small-Scale Industry (SSIs) owners will be collected to know their opinion about the bank loans for their business purpose.

LIMITATIONS OF THE STUDY

Due to the nature and area of the research this study has certain limitations within which our findings need to be interpreted carefully. Like any other research, this study also suffers from few limitations while, conducting this survey are as listed below.

- a) Considering the short time duration for the research, the sample had to been restricted to 10 small scale industries.
- b) This study may be the subject to personal biases of the respondents while answering the questionnaire.
- c) The method of study was structured open-ended questionnaire which may lack actual answers from the respondents and has its own limitations.
- d) The study may have sampling error that the sample does not reflect the general population or appropriate population concerned.

RESEARCH DESIGN

This is a descriptive research using primary data collection through survey. Relevant data for the study was collected using questionnaire that was designed to effectively fulfill the objectives of the research which have been stated above.

SAMPLING TECHNIQUE

The researcher will adopt the simple random sampling technique for this study.

SAMPLE SIZE

A sample design is a definite plan for obtaining a sample from a given population. The sample size will be 65 respondents.

SOURCE OF DATA

Primary data:

Data relating to the SSI units' ownership form, organization structure. decision making process, financial management procedures. tools and techniques adopted by them for the management of the select SSI are collected through a well-structured schedule. interviews were also held with the officials concerned to strengthen the data already collected.

Secondary data:

Statistics relating to the SSI in India and their role in the Indian economy are gathered from the published articles in the newspapers, journals, books and websites and reports of the State and Central Governments. Reserve Bank of India. The unpublished, audited accounting information of the select SSI units was immensely utilized for the present study.

Tools for data collection:

Questionnaires and telephone interview.

Plan of analysis:

The collection of data is arranged and tabulated as per the objective of the study. Identify the most important facts in the crisis. The ratio analysis will be used to analyse the data for this study.

DATA ANALYSIS AND INTERPRETATIONS:

TABLE 1: CLASSIFICATION OF ENTREPRENEURS ON THE BASIS OF EDUCATIONAL QUALIFICATION

<i>Education Level</i>	<i>No. of Entrepreneurs</i>	<i>Percentage</i>
Upto SSLC	2	10
PUC	10	50
Graduate	8	40
Postgraduate	0	0
Professional	0	0
Total	20	100

Interpretation: The above table shows that the 50% of entrepreneur are educated up to PUC and 40% of entrepreneurs are educated up to Graduation like B Com, B Sc, B A and 10% of entrepreneur are educated only up to SSLC.

TABLE 2: CLASSIFICATION OF ENTREPRENEURS ON THE BASIS OF THEIR PRIOR OCCUPATION

<i>Prior Occupation</i>	<i>No. of Respondents</i>	<i>Percentage</i>
Agriculturist	10	50
Business man	10	50
Professional	0	0
Employee	0	0
Others	0	0
Total	20	100

Interpretation: Among of 20 respondents, 50% of respondents are of business background, 50% of respondents were of the Agriculture background, no one belongs to professional and employee.

TABLE 3: NATURE OF INDUSTRY OF THE ENTREPRENEURS

<i>Nature of Industry</i>	<i>No. of Entrepreneurs</i>	<i>Percentage</i>
Production	1	5
Manufacturing	5	25
Processing	14	70
Any other	0	0
Total	20	100

Interpretation: The respondents are classified on the basis of the nature of industry into four types as follows. Out of 20 respondents 1 units belongs to production, 50 units belongs to manufacturing industry and 14 units are belongs to processing and no units to other industry

TABLE 4: FORM OF ORGANIZATION OF THE ENTREPRENEURS.

<i>Form of Organization</i>	<i>No. of Entrepreneurs</i>	<i>Percentage</i>
Sole Trading Concern	15	75
Partnership	5	25
Joint Stock Company	0	0
Total	20	100

Interpretation: The above table shows that, out of 20 respondents 15 respondents are belongs to Sole Trading Concern and 5 respondents are belongs to Partnership and no one respondents is in the form of Joint Stock Company. In Percentage out of total respondents 75% belongs to Sole Trading Concern and remaining 25% is in the form of Partnership

TABLE 5: CLASSIFICATION OF ENTREPRENEURS ON THE BASIS OF FIXED CAPITAL

<i>Fixed Capital [Rs]</i>	<i>No. of Entrepreneurs</i>	<i>Percentage</i>
Below 5,00,000	7	35
5,00,000 to 10,00,000	10	50
10,00,000 and above	3	15
Total	20	100

Interpretation: From the above table, it is clear that fixed capital of 35% respondents is presently below Rs 5, 00,000, 50% of units the present fixed capital is between Rs 5, 00,000 to Rs 10, 00,000 and 15% of respondents having the fixed capital of Rs 10, 00,000 and above.

TABLE 6: CLASSIFICATION OF ENTREPRENEURS ON THE BASIS OF AMOUNT OF WORKING CAPITAL

<i>Working Capital [Rs]</i>	<i>No. of Entrepreneurs</i>	<i>Percentage</i>
Below 5,00,00	2	10
5,00,000 to 10,00,000	14	70
10,00,000 and above	4	20
Total	20	100

Interpretation: From the above data, we may find that, present working capital is Rs 5,00,000 and below in case of 10% (i.e. 2 out of 20) of respondent units, between Rs 5,00,000 to Rs 10,00,000 in case of 70% (i.e. 14 out of 20) of units. Finally, 20% of respondents (i.e. 4 out of 20) are having more than Rs 10, 00,000 as working capital presently.

REASONS FOR OPTING BANKS

The entrepreneurs opting Banks because of so many reasons such as repayment period is more, rate of interest is low, less procedure, quick sanction of loan and other.

TABLE 7: REASONS FOR WHICH ENTREPRENEURS OPTED BANKS

<i>Reasons</i>	<i>No of Entrepreneurs</i>	<i>Percentage</i>
Repayment Period is more	5	25
Rate of Interest is low	15	75

Less Procedure	0	0
Quick sanction of loan	0	0
Other	0	0
Total	20	100

Interpretation: From the above table, 5 Entrepreneurs stated that they opt Banks because of repayment period is more, 15 Entrepreneurs opt Banks because of Rate of Interest is low.

PURPOSE OF LOAN TAKEN

The Small – Scale Industrial entrepreneurs are taken loan assistance from Banks for various purpose such as establishment of units, expansion of existing unit, modernization of existing unit etc.

TABLE 8: CLASSIFICATION OF ENTREPRENEURS ON THE BASIS OF PURPOSE OF LOAN TAKEN FROM BANKS

<i>Purpose of Loan</i>	<i>No. of Entrepreneurs</i>	<i>Percentage</i>
Establishment of unit	15	75
Expansion of Existing unit	3	15
Modernization	2	10
Other	0	0
Total	20	100

Interpretation: The above table indicates that, out of 20 respondents 15 respondents borrowed loan from Banks for establishment of unit and 3 respondents borrowed loan for the purpose of expansion of existing unit and 2 respondents taken loan from Banks for the purpose of Modernization.

LOAN BARROWED UNDER DIFFERENT SCHEMES

The Small – Scale industrial entrepreneurs are taken loan form Banks under various schemes such as Flexi Term Loan, SME Credit Plus, Annapurna, and Stand – by Line Credit etc.

TABLE 9: LOAN BARROWED UNDER DIFFERENT SCHEMES

<i>Schemes</i>	<i>No. of Entrepreneurs</i>	<i>Percentage</i>
Flexi Term Loan	7	35
SME Credit Plus	4	20
Annapurna	6	30
Stand – by Line Credit	3	15
Total	20	100

Interpretation: Above table indicates that out of 20 respondents 7 respondents are taken loan under the scheme Flexi Term Loan, 4 respondents are taken loan under the scheme SME Credit Plus, 6 respondents are taken fund under the scheme Annapurna and 3 respondents are taken fund under the scheme Stand – by line credit from Banks

AMOUNT OF LOAN BARROWED FROM THE BANK BY THE ENTREPRENEURS

TABLE 10: AMOUNT OF LOAN BARROWED FROM THE BANK BY THE ENTREPRENEURS

<i>Amount</i>	<i>No. of Entrepreneur</i>	<i>Percentage</i>
Upto Rs 50,000	7	35
Above Rs 50,000 – Rs 1,00,000	8	40

Above Rs 1,00,000 – Rs 5,00,000	2	10
Above Rs 5,00,000	3	15
Total	20	100

Interpretation: Out of 20 respondents, 7 respondents has taken fund up to Rs 50,000, 8 respondents has taken fund of Rs 50,000 to Rs 1,00,000 2 respondents taken the fund of Rs 1,00,000 to Rs 5,00,000 and 3 respondents have taken fund above Rs 5,00,000, from the Banks.

FINDINGS

From the study of financial assistance to Small – Scale Industries, the following findings are identified.

- i. According to survey majority of respondents have PUC and Graduation qualification because of they are undertaken business like catering, tailoring ect.
- ii. Most of the respondents are from Business and Agriculture background who have started Small – Scale Industries.
- iii. From the survey we can consider that most of the respondents' nature of the industry is Processing and Manufacturing.
- iv. It was found that the most of the respondents' form of Organization is sole trading concern and partnership. Their size of investment is less.
- v. From the survey it was found that most of respondents have fixed capital between Rs 5, 00,000 to Rs 10, 00,000 which is enough for the type of industry like catering, tailoring etc.
- vi. From the survey it was found that most of respondents have working capital between Rs 5, 00,000 to Rs 10, 00,000.
- vii. Most of the respondents opted Banks as its repayment period is more and interest rate is low.

SUGGESTIONS

The followings are the suggestion given to the Small – Scale industrial entrepreneurs and to the corporation.

- i. For the development of Small – Scale industries, it is essential that methods of production are to be modernized. Research institutions are to be established to value technology. For this Banks had to provide financial assistance.
- ii. Banks should arrange various programs to the Small – Scale Industries at free of cost for development of these industries.
- iii. The interest rate charged on loan should be low for improving Small – Scale Industry and to face competition from other big industries.
- iv. The terms and conditions of Banks with regarding to the procedure of purpose of loan should be simplified.
- v. If a unit is eligible for subsidy, the unit should be allowed to utilize it full. The Bank should release the subsidy in time.

CONCLUSION

Small – Scale Industries very much suited to developing country like India because, it generates employment opportunities.

The growth and performance of Small – Scale Industries in Bangalore city is not so good because of problems like less demand, raw – material problem etc., so these industries are in need of financial assistance and support by financial institutions.

- i. SSIs act as a catalyst for growth and development.
- ii. SSIs are the major source of employment.
- iii. Provide training avenues for local entrepreneurs in several areas of economic activities.
- iv. Aid the process of income redistribution.

- v. Sound development of SSIs has positive implication for improving the standard of living of the citizen.

Although this list of the roles of SSIs in the process of economic growth and development is limited, the sub-sector in India is still faced with a lot of bottlenecks, which retard the pace of their growth and development. Apart from finance, other factors hindering the growth and development of SSIs are.

- i. Inadequate infrastructure
- ii. Inefficient water supply system
- iii. Unfriendly tax system

For the country's SSIs to survive the competitive drive, the Indian government, public sector banking services and Reserve Bank of India (RBI) guidelines will have to be improvised upon the factor highlighted above.

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