Vol II Issue XII Jan 2013
Impact Factor : 0.2105
ISSN No : 2230-7850

Monthly Multidisciplinary
Research Journal

Indian Streams Research Journal

IMPACT FACTOR : 0.2105

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RNI MAHMUL/2011/38595 **ISSN No.2230-7850**

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Indian Streams Research Journal
Volume 2, Issue.12,Jan. 2013
ISSN:-2230-7850
Available online at www.isrj.net

ORIGINAL ARTICLE

MICRO LEVEL MSEM TRIBULATIONS AND SOLUTIONS IN GOA-EXPLORING

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Abstract:

Micro, Small and Medium Enterprises plays a pivotal role in the economic development of our country. Just like farmers are the backbone of Indian Agriculture, our MSME's are the chlorophyll for the photosynthesis of industrialization. With the introduction of MSMED Act 2006 with effect from 2nd October, 2006, a huge disparity has been created. There is now a new benchmark of Micro-Micro, Micro- small, Small-medium industries. This essentially means that there should be a different approach in tackling the problem of the same sector, which is largely diverse. The liberalization has brought a sea change in the attitudes, values and behavior of the customers who has little consideration for the home made goods. Goa the land of sun, sea and sand is no exception to this. An attempt has been made in this paper to identify MSEM level tribulation in Goa. These tribulations are many and have been changing as per the nature of situation, product, locations, economy ... and many others. This paper highlights some identified issue of MSMEs makeover of Tribulations, recurring emerging tribulations, rehabilitations of MSMEs and finally giving some few solutions for the rehabilitations and modernizations using modernization fund.

I. INTRODUCTION

An attempt has been made in this paper to identify Micro level tribulations in small enterprises in Goa. These tribulations are many and have been changing as per the nature of situation, product, locations, economy….and many others! The first task is to comprehend them and then to explore the solutions. In "Problem-Solution-Problem Cycle", we must explore as far as possible an optimum solution giving rise to least possible problems. SIUs have many tribulations and also have many solutions that are critically discussed in this paper. The concluding portion of the paper accentuates the SIU motorization as a way to cope with Globalised challenges.

II. METHODOLOGY

An informal interaction with entrepreneurs and officials of funding agencies threw light on the ground level realities in funds management. In the course of discussions, reasons for various tribulations and possible solutions were also emerged. Business Units in different industries like—paper cone making, textiles, bakery, plastic products-making, fire works, food processing, engineering parts etc.—are facing some asymmetrical problems in managing funds. Thus the focus of this field survey is to list out the generic problems and reasons pertaining to funds management in small enterprises in different industries at Goa.

To maintain confidentiality the names of the business units, entrepreneurs and officials were not disclosed.

III. IDENTIFIED ISSUES

1. Distraction of Funds

When funds are not used for the reasons for which they were raised it shows the way to diversion. The reasons for distraction are numerous. Catalog a only some:

Lack of indulgent and an effective implementation of accounting system,
Failure to account business income separately
Tendency to spend even before money is earned,
Tendency to spend heavily for furnishing and decorating offices and other image building expenses,
Considering cash inflows are profits,
Withdrawing for personal use towards festival, marriage and educational expenses,
Inadequate supply of finance at the commencement of Business units
Unnecessary preliminary expenses at the beginning of the project
No or little knowledge of technical know how about the business unit to be started

Though the business is run by the entrepreneur and for the entrepreneur, he should ensure that separate entity perception is being strictly adhered to.

One successful offset printing Unit after 3 years of prosperity faced a financial crisis and started to default on loan repayments. On probing the problem—it was found that their interest burden was heavy on the huge amount of outside borrowings. Further analysis revealed a shocking reason that those debts were raised in order to meet out the expenses carried out during festival—which used to be celebrated extravagantly. The action plan for solving the problem has started by liquidating few personal assets of the entrepreneur and repaying the debt—which consecutively reduced the interest burden.

One chemical Unit suffered in the initial stages of production found another type of funds problem. Finally the entrepreneur understood the mistake that he had committed—"spent about 10 per cent of the project cost on decorating the office.”

2.Excess Investment on Fixed Assets

Technical appraisal and capital budgeting decisions in small projects are not carried professionally in many cases. Unless the Funding agencies are involved, it has been done by the owner himself, by availing assistance from his own acquaintances and friends. The lack of accessibility to technical information and information relating to sources of purchase of machinery leads to excess investment on fixed assets, which in turn inflates the operating and maintenance cost.

A hotel unit was about to be shut down by the funding agencies on account of non repayment of loan. Though the production records were good they had narrow cash margin which was inadequate to pay the investments. The funding agency was about to classify them as "Willful defaulters". As a family runs business the youngest son in the family resolved to solve the problem and started analyzing it with the help of an accountant. Finally they found out that their hotel taxes and elasticity tariff was almost double when compared to the other unit of the similar size. The root cause of the problem was that the unit, unlike other unit had been paying regularly and providing quality food and services. To stay in business the two paths were available. Firstly, Corruptive Arrangements like other hotels units were to be made to avoid the existing taxes and electricity bill and also supplying inferior food and services. Secondly, other solution was to provide quality food and services to sale on large scale for more profits and good will on lasting scale. The hotel unit under question accepted and followed the second uncomplicated path and stood successful.

3.Opting for Premature Expansion and Diversification

Temporary boost in demand for the products is acting as an attractive factor for the entrepreneurs to opt for an early expansion. However, they learnt their lessons only after realizing the fact that the demand fluctuations were tentative in nature.

During textile boom, a successful fireworks manufacturer diversified his business into textiles. With the capital of Rs. 10 lakhs on 24 looms, the business had been sailing smoothly. The success led him to go for further expansion of his textile unit. He borrowed Rs. 7 lakhs for the expansion. Even before initiation of the expanded business unit, the entire textile industry had started facing problems. At present, the repayment of loan and interest burdens is being shouldered by his existing business- fireworks

4.Depending on Single Customer

Widely entrepreneurs are starting their own unit after acquiring few years of experience. Apart from this, a few industrial undertakings are encouraging their existing employees (especially engineers) to act as a vendor to them by starting their own business houses. Hoping to have continuous orders, the engineers are also starting their own business units, planning for continuous cash flows. Days to go the competition has started mounting up—expectation of quality was up and up and continuous cost reduction was warranted, undue delay in payment from the customer created a lot of chaos in funds management of the undertaking—resulting in closure of the units.
It is the case history of a few units, which were relying heavily on a single customer base.

5.Chain Effect of Business Cycles

Recessionary trends in one industry get reflected in its allied industries also. Because of lull in textile industry, paper cone making business unit suffered a lot.

One successful paper cone making unit was defaulting continuously on its repayment schedules. Though their production records were impressive, they were not able to generate cash flows. Reason being, their long-term customer— one of the popular textile mills was not able to release the payment for the paper cones purchased from this Unit.

The credit period enjoyed by their customer was not in parity with the same enjoyed by them either from its trade creditors or from their funding agencies.

6.Raising more than Required Borrowed Capital

The non-availability of times and adequate finance generally acts as a severe restraining factor for the success of the undertaking. However, the excessive funds and improper utilization of it will assure failure of the enterprise especially when the excessive funds were sourced from borrowings. In order to avail more subsidies, entrepreneurs are tempted to inflate their project cost. The excess funds generated through bank loans were not utilised for productive purposes in many cases.

An entrepreneur who started a bakery business raised around half a time more than the loan required. The excess loan amount was wasted by following a liberal credit policy and excessive investment on furnishing.

The business unit started facing problems after a few months from the day of initiation of business. Now the interest burden is heavy and the adequate returns were not generated as most of his investment was turned out to be dead investments.

7.Payment-Receipt Mismatches

An entrepreneur should possess and develop the skill of matching the payment-receipts as per their priorities.

Identifying alternative solutions, evaluating them and select the best alternative will help them in solving payment crisis.

One successfully run rice-mill unit was not even able to meet out its power charges, leave alone the repayment of loans and interest charges. The entrepreneur had started feeling that he was a failure in running his business, till he got a help from his own relative who studied the entire payments and receipts schedule. The solution was worked out very simply by setting aside cash received from sale of bran which was made once in a week. Now the entrepreneur is able to meet out of all the operating and maintenance costs apart from repaying the loans he raised.

8.Frequent Changes in Pricing and Credit Policies

The relationship between Cost—Volume—Profit—should be clearly understood by an entrepreneur. Pricing is one of the critical issues, which determines the profit of the Organization. Credit policy is another factor which determines the quantum and time of cash of generation. Frequent changes in pricing and credit policy may lead to failure of an enterprise. It was evidenced from the failure of two business units in food processing business-making fruit jams and sources. Frequent price changes were initiated due to absorb any price increase on fruits.

As the demand for their products was picking up, the entrepreneurs started adopting stringent credit policy. Both price fluctuations and credit policy changes created chaos in funds management apart from the loss of valuable customers. The business units are at present in the process of preparing revival plans.

9.Unexpected Changes in Policy Guidelines

Unexpected changes in policy guidelines regarding subsidy create lots of stresses on funds management of small enterprises. The units which had started in backward Taluka were offered 20 per cent of their project cost as subsidy. Till the subsidy gets sanctioned, the amount of subsidy is used to be offered to the business Unit as a bridge loan.

The change in Government guidelines from Taluka based subsidy to Block based subsidy made them ineligible for the subsidy. The ongoing business units were unexpectedly burdened with interest payments.

10.Other Reasons

a.Bureaucratic Problems

Almost 3 to 5 per cent of the project cost is used to be paid as price during fulfilling legal formalities while starting the New Business.

b.Rigid Guidelines

Undue delay in releasing the loan amount, lack of single window clearance procedures, unnecessary paper works which are not serving the purpose—act as barriers to an effective funds management.

c.Partnership Problems

One food processing unit was closed down due to ambitious policy relating to partners' drawings from business for personal use.

d.Lack of Contingency Plans

Future is always uncertain. Though it is not possible to predict the future happenings accurately the entrepreneurs, should have contingency plans based on their rational forecasting. Highly optimistic forecasting may reduce the degree of preparedness to meet the untoward happenings.

It was proved true in case of a plastic product-manufacturing unit. The loan was raised based on the project proposal to produce clinical plastic items. There was unexpected delay of 1.5 years in importing the plastic moulds required. In order to pay the interest on loans, raised, he initiated the production to make day-to-day use plastic items. This was made as an issue, at the time of releasing the final disbursement of loan. The entrepreneur resubmitted his proposal and finally got the loan disbursed. Now he is burdened with interest charges more than the loan raised...

IV. MAKEOVER OF TRIBULATIONS

The foregoing discussion suggests that there are many micro level problems to SIUs. When similar micro tribulations accumulated these together shaped under the roofs or headings of dissimilar nature .Thus the wrong or defective Planning, Red tapism , Concentration of economic power in one person, Inflationary economy , inadequate power or fuel supply, lack of skilled availability, weak internal control, family disputes in the families of entrepreneurs, heavy taxation, tuff competition, elastic or inelastic demand,… so and so forth .The problems occurring to SIUs differs from one to other SIU. The problem perceptions from one to other fluctuates as per situation .Thus, upon the interviews of the bankers financing the SIUs, the following problems of SIUs were noted-down in the experience survey

Number of Banker (N=10) Agreeing to Reasons for Industrial Sickness

Reasons for Industrial sickness	Agreement by sampled bankers
Continuous cash losses.	40%
Extravagance in the personal life style of partners/directors.	40%
Transfer or resignation of key management personnel.	10%
Closure of factory.	20%
Borrowings from market at excessive rates	60%
Diversion of funds from the existing business to new industrial lines.	60%
Loss of major product lines or distribution rights etc.	30%
Plants obsolescence.	30%
Product obsolescence.	30%
Incapacity or death of the key person, disturbing finances.	20%
Utilizing short-term funds for long-term uses.	60%

In order to solve the SIU problems, the number of efforts has been made by the Govt as per consultation of experts in the field. The policies pursued since the middle of 1991 for enabling a smooth transition to a market-oriented economy from a semi-controlled one are bringing about a noticeable change in the facial appearance of the economy lately. Under the post NEP the numbers of decisions have been taken and solutions explored to help the SIUs. However these solutions/decisions have crested other problems. Thus for example, the lowering of import duties, liberalisation of import procedure and incentives for encouraging a large flow of investments, has given rise to anomalies. The industries especially the small scale ones are handicapped on account of higher cost of inputs, outdated technology, lack of experience etc., when facing global competition though there is a talk of a level playing field all the time. These developments had prompted us to rethink the policies, which we have taken with regard to the growth and development of small-scale industries.

We come across huge advertisements announcing the sale of on-going small scale industries by GSFC due to paucity of funds for repayment of term loan in time. Though a number of eyebrows are raised when we see these advertisements, not much research has gone into the reasons for the sudden increase in industrial segments especially for the small-scale sector.

Our financial planners have given more than the required attention for development and financing of new small scale industries. But in reality, it is observed that more than fifty percent of the small scale industries are unwell or sticky. This has generated a back lash among the new generation of entrepreneurs in thinking twice before for going for new ventures.

V. RECURRENTLY EMERGING TRIBULATIONS

Changing Investment Parameters of SIU

In the last 50 years a large number of small-scale industries have come up in this country. By definition itself, the criteria for being a small-scale industry is decided on the quantum of investments in plant and machinery. Over the last five decades this has jumped from a meager 5 lakhs rupees to few crores. Thus the Small Scale Industries are now classified as Micro, Small & Medium Enterprises. The 'Micro, Small & Medium Enterprises Development (MSMED) Act - 2006' was in force with effect from 2nd October, 2006 Under the Act Enterprises engaged in the manufacture or production of have been classified into three categories namely -

Micro Enterprises:-A micro enterprise, where the investment in plant and machinery does not exceed twenty-five lakh rupees;
Small Enterprises:-A small enterprise, where the investment in plant and machinery is more than twenty-five lakh rupees but does not exceed five crore rupees;
Medium Enterprises :-A medium enterprise, where the investment in plant and machinery is more than five crore rupees but does not exceed ten crore rupees;

This has created a huge disparity in the very purpose of being a small. There is now a new benchmark of small-small, small-medium and small-large industries. This essentially means that there should be a different approach in tackling the problem of the same sector, which is largely diverse

The much required training and development for the entrepreneur during the commencement and subsequent stages of growth are hardly encouraging. This has created lethargy in the development of the small-scale sector.

The opening up of the economy to international competition without adequate precautions to safeguard the small scale sector from being crushed by multinationals by sheer money power and larger economies of scale, has led to the sad fact that many industries are slowly wound up or integrated to large industries directly or indirectly.

The liberalization has also brought in a sea change in the attitudes, values and behaviour of the customer who has little consideration or patriotism for home made goods. This gives a strong bias towards multinational products which are qualitatively and economically much more viable than the products of Indian small scale industries.

The short product life cycle of our small-scale industrial products combined with lack of market research and future planning has dwarfed our small scale sector.

The cumbersome procedures and red tapism involved in getting additional finance for modernization and development coupled with the inertia on the part of the authorities to make available the scarce resources contained in the development fund, have acted as a death knell of the SSI.

VI. WHY REHABILITATE SMALL SCALE INDUSTRIES

It is a widely debated subject as to whether we should modernize and thereby rehabilitate our sick small scale units or to allow it die a natural death the debate continues. Till such time we do not have any further option but the second. Standing at the brink of the next decade, it would be wiser that we once again recall that just like the farmers are the backbone of Indian agriculture, our small scale industries is the chlorophyll for the photosynthesis of industrialization.

It would save the government a great deal of time and money if it can earmark a sizable chunk for modernization of ailing industries, thereby helping them to develop new roots required for greater strength and stability.

Presently the Government had set apart a certain quantum of money for modernization subsidy for industries selected by the Government of India or the Industries Director. The modernization subsidiary is limited to 15 per cent of capital investment subject to a minimum ceiling per unit (which varies from the time to time). The modernization should be based on a modernization project report approved by the District Industries Centre. The interest rate for the loans for modernization is also lower than the normal rate.The modernization fund should be made available to industries as grants or loans (at very subsidized rates). The repayment period should be at lease for five to ten years, depending upon the health of the industry/unit concerned. The fund should be disbursed as per the schedule fixed by the Director of

Industries in consultation with the entrepreneur.

VII. THE SOLUTION

A few solutions are suggested for the rehabilitation of sick industries through rehabilitation and modernization using Modernization Fund.

1)Market research should be done to ensure that the modernization which is to take place is in the right direction and also to ensure that there is a high degree of adaptability of the new product/service viz. the market.
2)Advancement in technology should be provided either through purchase of new technology from the right source in India or abroad suitable for a quantum jump in up-gradation of the product, or through research and development at specialized centers promoted by the Government.
3)Training programme should be conducted periodically for the entrepreneurs and the executive to sharpen the skills in different functional areas like marketing finance, personal etc.
4)Supply of new machinery and equipment required for better cost effective production of small or large volume of goods.
5)Modernization of power equipment to cut down the consumption of power thereby saving cost.
There may be many other purposes for which the modernization fund may be useful for small-scale industries. However the author has only given a few suggestions in this context to generate interest motivation to other researchers in this direction.

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c.Agro-Base Industries (Any Sector);
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