Chapter 2
Design of the Study

Review of literature

As preliminary and preparatory part of the present research work, the researcher undertook a review of literature on khadi and village industries. The review of literature enabled the researcher to ascertain the contribution by the various expert committees and scholars in this field and identify promising virgin field awaiting fresh initiatives.


In pursuance of the recommendations of these expert committees, programmes of KVI were revamped and expanded. Introduction of polyvastra, and adoption of new tools like powerghani, power-operated potter wheel and Nepali loom were among the results of the exertions of these committees. On the recommendation of the Review Committee of 1987 the term ‘Village Industry’ was redefined with reference to investment per workplace and location as referred to in Chapter I. This new definition raised the number of village industries
Five Year Plan (1997-2002) recommended measures for evolving a
system of market intelligence and strategies for improvements of
quality of KVI products. Writers like Patel M.L. (1968)\(^8\), Hemchand J
(1982)\(^12\), stressed the importance of small and village industries in the
economic development of India. Arpudaraj (1979)\(^13\) and Pandit Rao
(1981)\(^14\) studied problems in the supply of raw materials in KVI and
competition from the organized sector.

Pandit Rao (1996)\(^15\) pointed out deficiencies in financing of KVI
activities. He advocated liberal norms for financing unorganized village
industries having long credit cycle. Jayalakshmi Srikumar (2001)\(^16\) has
identified major problems of small scale industries in labour relations
and product acceptability and suggested bank credit as saving factor
and product quality and product diversification as survival factors. Lele
S.A and Sapkal R.S (1992)\(^17\) examined the feasibility of cost reduction in
hand made paper industry through minimization of expenditure on
procurement of inputs. Dr Seerangarajan (1998)\(^18\) pointed out that a
sound inventory practice with short new material cycle would help the
maximization of profitability.

Madhav Rao (1996)\(^19\) explained the policy support for
industrialization as extended in England, Yougoslavia, Brazil, Japan and
India. Srinivasan H.R (1996)\(^20\) advocated new strategies for KVI sector.
According to Mm KVI sector should link its programmes with those of
the panchayats and it should also develop KVI activities as ancillary units supplying to other industries.

Basavaraj and Hyderabad (2002)\textsuperscript{21} surveyed inventory practice of 100 small scale units and found that 39 units had no knowledge of issue methods of inventory. Arunachalam (1974)\textsuperscript{22} explained the philosophy of khadi and its approach to economic development. Bharatya (1975)\textsuperscript{23} and Bepin Bihari (1976)\textsuperscript{24} argued the importance of rural industrialization in the rural economy. Dagli (1976)\textsuperscript{25} and Bhattacharya (1980)\textsuperscript{26} dealt with the problems of KVI sector in technology, raw materials and marketing.

Rural Industries Under Liberalisation edited by M. Soundarapandian (2003)\textsuperscript{27}, contains 16 papers on the problems and prospects of small and rural industries in the wake of liberalization of the Indian Economy. The writers have made recommendations for equipping the small and rural industrial sectors for the new challenges. The recommendations cover improvement of research and design, infrastructural facilities, dissemination of information regarding technology, quality standards, common affluent treatment plants and professional management.

A few unpublished doctoral dissertations were examined in the review of literature. Sudalai Muthu S. (1981)\textsuperscript{28} studied the marketing practices in the khadi and village industries and recommended the improvements in advertisements and packing besides expansion of products. Arumukham P (1990)\textsuperscript{29} evaluated financial performance of
TamilNadu Khadi and Village Industries Board. Meenakshi Sundaram (1991) examined financial performance of selected khadi institutions in TamilNadu. Both Arumukham and Meenakshi Sundaram advocated production planning inventory control and vigorous collection of dues for improving the management of working capital. Radhakrishnan (1998), who studied the functioning of khadi institutions in Tiruchirappalli district, recommended introduction of common marketing mechanism for khadi institutions for reduction of marketing cost and improvement of sales. Kannan Nair (1998) analysed the functioning of NGOs of KVI sector in Dindigul district advocated marketing consortium for KVI products. He also recommended diversification of activities and improvement of financial discipline.

Review of literature shows that scholars dealt with general problems of small and village industries and suggested remedial measures. Problems in the procurement of material inputs and marketing labour relations and product acceptability were among the issues discussed in their erudite papers. Those who prepared doctoral dissertations studied specific institutions and the case-studies yielded recommendations of remedial action for the problems faced by these agencies.

**Present study**

The present exercise seeks to study those institutions which have not been covered in the past. Also the researcher proposes to use new tools of analysis available in Statistical Package for Social Science as these tools have been fine tuned for such research work.
Objectives of the present study

The present study aims at evaluating the performance of a few selected institutions implementing KVI activities in production, sales, employment, wage earning, profitability and financial health. It is also proposed to identify factors which influence the performance and make recommendations for the future development of these activities. Specific objectives of the study are to

1] measure the inter temporal variations in production, sales, value addition, employment and earning by workers in KVI sector,
2] guage the profitability of these activities,
3] evaluate management of working capital,
4] study the pattern of mobilization and application of funds in this sector,
5] examine the effectiveness of the management of the institutions organizing KVI activities and

Hypotheses

On the basis of the review of literature the researcher was able to frame the following hypotheses which guided the thrust of the investigation.

1] Because of the growing ferocity of competition from the organized sector, especially after the onset of the policy of liberalization, activities of KVI sector would have stagnated and declined.
2] Since khadi (hand woven out of handspun yarn) has to face competition from both textile mills, powerlooms and handlooms it would
have lagged behind village industries in the growth of production and sales.

3] Employment opportunities and wage earning in the activities of KVI sector would also have declined over a period of time due to fall in production and sales.

4] Competition would have caused serious erosion in the profitability of these activities and there may be periodic net losses too.

5] Stagnation/fall in sales would have caused long duration of operating cycle in the management of working capital.

6] Due to recurrent losses these institutions would carry heavy accumulated loss draining the capital - base and would be completely dependent on KVIC for additional funds and

7] Management of KVI sector would be dynamic and meticulous in organizing these activities in order to sustain them against competition from factory sector.

Selection of the study area

Virudhunagar district with headquarters at Virudhunagar town lies between 9.00° N and 10.00° N and between 77.22° E and 79.25° E. with an area of 4283 sq. kms. and population of 17.51 lakhs. The district has hot and dry climate. Normal average rainfall for the district is 814 mm as against state average of 978 mm. Irrigated area constitutes 41.40 percent of the net area sown in this area while it is 54 percent for the state. Area sown more than once is 2.5 percent of the net area sown in the district while corresponding figure for the state is 19.32 percent. Among the 28 districts of Tamilnadu, Virudhunagar
District ranks in 23rd place in respect of rainfall and area sown more than once and 21st place regarding irrigation facilities. Virudhunagar District was chosen as the study area on the basis of the following considerations.

Inadequacy of rainfall and irrigation facilities as well as hot and dry climate show the need for creation of massive employment opportunities in non-agricultural sectors in the study area. In fact the district has already witnessed a substantial growth of match industries. Development of khadi and village industries would be a feasible means of diversification of the local economy.

The district is noted for traditional handloom weavers especially silk weavers in Aruppukottai Taluk. The district played a prominent role in the freedom struggle under Mahatma Gandhi. This small district has claimed 519 entries in ‘Who’s Who of Freedom Fighters of Tamilnadu’ published by Government of Tamilnadu in 1973. It also contributed two Chief Ministers of the state - Kumaraswamy Raja and Kamaraj. The patriotic fervor popularized the khadi cloth in the area and climatic conditions helped to preserve the habit. This is the only district in the state to have six municipalities which help marketing of the products of khadi and village industries. Need for nonagricultural employment opportunities and availability of skilled weavers, especially those weaving silk cloth in the area, have been among the factors facilitating the growth of khadi and village industries! It would be a productive exercise to assess how the above advantages have been
harnessed for the growth of khadi and village industries in the district. That the district has remained undivided since 1985 has further helped the present work.

Selection of institutions

There are four non-government organizations (NGOs) which are registered societies implementing the programmes of KVI in Virudhunagar district. They are:

1] Aruppukottai Sarvodaya Sangh at Aruppokottai (AS),
2] Ramanathapuram District Sarvodaya Sangh at Srivilliputhur (RS),
3] Ramanathapuram Central Sarvodaya Sangh at Sivakasi (SS) and
4] Virudhunagar Sarvodaya Sangh at Virudhunagar (VS)

Abbreviated names of the four institutions are given in parenthesis.

In addition to the above four NGOs there are co-operative societies and departmental centres of TamilNadu State Khadi and Village Industries Board. The co-operative societies do not have khadi programme and they run village industrial units only. Most of them have only one activity each and their database is very scanty. The departmental units of the State Khadi and Village Industries Board are integrated with the state level marketing wing. These units sell their produce to the marketing wing of the Board and there is no way to find out whether the produce of an unit has reached the consumer or not. In view of the above problems, the co-operatives and the units of the State Board have been excluded from the present study.
Thus the present study covers the work of four NGOs implementing the programmes of KVI in Virudhunagar district. These institutions were originally among the branches of Tamil Nadu Sarvodaya Sangh which was established for the implementation of the Constructive Programme of Mahatma Gandhi. The Sangh mainly concentrated on the development of khadi and village industries which were among the activities of the Constructive Programme. In course of time 60 branches of the Sangh grew large enough to be registered as independent institutions under Societies Registration Act of Tamil Nadu. Among the four institutions under study RS was the first institution to be registered as a separate NGO in 1972-73, followed by SS in 1976-77 and AS and VS in 1989-90.

Management
There are two kinds of workers in these NGOs - those on monthly salary and those on daily wages. Employees on monthly salary become permanent on completion of 15 years of service. However those who undergo training in khadi/village industries become permanent employees on completing ten years of service. The permanent employees are eligible for elevation to the board of trustees.

Board of trustees
Board of trustees is the general body in each of the NGO. The Board decides its own strength in tune with the requirement of the work of the organization. In 1990-91 the board of trustees had 13 members in AS, 23 in RS, 12 in SS and 9 in VS. In 1999-2000 the Board had 17 members in AS, 27 in RS, 15 in SS and 18 in VS. It may be noted that
all the trustees are permanent employees of the organization. New
trustees are inducted either when trustees retire from service or when
the number of trustees is increased. When vacancy arises the Board
will select new trustee from the permanent employees, normally on the
basis of seniority. The Board can also decide not to fill the vacancy in
view of the work load of the organization, as perceived by the Board.

Executive Committee

The Board of trustees unanimously elects an executive
committee of nine members consisting of chairman, secretary, treasurer
and six members. This committee is responsible for the management of
the NGOs and the secretary implements the decisions of the executive
committee. All resolutions in both board of trustees and executive
committee are made unanimously and this practice helps to cement the
solidarity of the organization.

Nature of the study and sources of data

The present study is a descriptive one. It employs secondary
data of the institutions under study. The data were gathered from
audited statements of final accounts (AFA) with annextures and
schedules therein of these agencies. The study has also used
particulars, collected from the annual reports of KVIC.

Period of the study

The study covers the performance of the four institutions for a
period of ten years from 1990-91 to 1999-2000.
Unit of number and name of currency

Data in the study are given in lakhs and crores which are Indian units of number. One lakh is equal to one hundred thousands and one crore is equal to ten millions. Rupee (rupees in plural) is the name of Indian currency and as on 13-10-2003 one US dollar is equal to Rs.45.54.

Tools of analysis

For removal of inflationary effects in the inter-temporal comparison, all financial data - value of production, value addition, sales and wages - in current prices, have been deflated to the price level of 1990-91 with the help of wholesale price index. Value addition contributed by the production - process has been estimated in the form of gross value added by manufacture and net value added by manufacture. Variations in production, value addition, sales, employment and wages earned during the period under study have been measured with the help of compound growth rate, cubic equation and linear equation. For this purpose Statistical Package for Social Sciences (SPSS) version-10 has been used.

Profitability of the business operations has been measured with the use of gross profit/sales ratios, net profit/sales ratios and rates of return on capital employed. Stepwise regression method has been employed for identification of factors influencing gross profit and net profit. In the computation of the rates of return on capital employed, capital employed has been compounded to the present value by time value of money equal to the weighted average cost of capital for each
institution. Management of working capital has been examined through computation of operating cycle of the working capital. Pattern of mobilization and application of funds has been studied in fund flow analysis. Performance of managerial leadership has been evaluated by a three point scale.

Limitations of the study

The four NGOs covered in the study have separate manufacturing accounts - in the form of purchase, production and sales accounts - for khadi and village industries but trading account, profit loss account and balance sheet are common for the both wings. Consequently particulars of fixed costs, fixed assets, capital, sundry creditors and sundry debtors are not available separately for the both wings. The above pattern of final accounts has imposed certain constraints in the analysis of net profit, value addition and operating cycle as pointed out in Chapters 3, 4 and 5.

Chapterisation

Chapter-I introduces the subject of khadi and village industries.
Chapter-2 contains review of literature, selection of the topic of the study, objectives, hypotheses and methodology
Chapter-3 deals with the progress of the business operations of the institutions under study.
Chapter-4 is devoted to the analysis of the profitability of the business operations.
Chapter-5 covers management of the working capital.
Chapter-6 carries fund flow analysis.
Chapter-7 examines managerial leadership of the NGOs.
Chapter-8 contains an analysis of the prospects of KVI sector and
Chapter-9 presents a summary of the findings and recommendations.
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