CHAPTER – II

REVIEW OF LITERATURE

Review of Literature is highly needed for all types of research. It provides various information relating to the past and the present conditions and about the area of research. In this chapter, studies relating to Small Scale Industries are reviewed.

Previous Studies

Anil Kumar\(^1\) has examined the financial challenges faced by urban, small and medium enterprises under financial sector liberalization in Ghana. Main challenges faced by urban small and medium enterprises affect the affordable credit over a reasonable period. To manage these challenges small and medium enterprises should manage record keeping in an effective manner.

Balajit Singh,\(^2\) in his study of SSI in Mordabad district has found that 33 percent of sample units have borrowed from traders, 27 percent from relatives and friends and 21 percent from moneylenders.

Balakrishnan G,\(^3\) has analyzed the experience of joint stock companies in financing the SSI sector and had found that they have low repaying capacity due to high cost of production and high rate of interest.

Basarkar\(^4\) has stated that banks do not doubt about the technical capabilities of the SSI project. The bankers probably expect small enterprises to grow only at 20-25 percent and not more.

Chandak. B.L.\(^5\) has viewed that credit portfolio of State Financial Corporations has stagnated around Rs, 11000 crore since financial year 1998. It means that there is little net inflow of credit from SDFCs that predominantly finances small-scale industry projects. Further, with staggering non-performing asset level of 64 percent at the end of financial year 2003, State Financial Corporation's capability of recycling assistance is severely impacted.

Dhas\(^6\) in his study on “On the role of SSI in the Economic development of Virudhunagar District”, has analysed both block wise and industry wise trend and growth of units registered, investment made, employment generated and production made in developed and backward areas. The contribution of SSI, to the development of blocks in both the developed and backward areas in terms of the seven identified growth factors is impressive. The contribution of SSI to the economic development of the district in terms of utilization of raw materials, employment generation, asset creation and forex earning is not only significant but also unique. Thus, it may be concluded that despite various shortcomings and problems, the SSI units in Virudhunagar District have played a vital role in the promotion of the economic development of the district.

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Ganesan. S and Navaneethakrishnan. K\textsuperscript{7}, have studied the financing of Small and Medium Enterprises, by Indian banks and financial institutions. According to them they have to focus more on providing marketing finance, venture capital micro finance and factoring assistance at reasonable costs to make SMEs domestically and globally competitive.

Gnanasoundari.P\textsuperscript{8} in her study has concluded that the industrial sector of Tamilnadu witnessed a higher growth as compared to the rest of India. Madurai District has favorable climate for industrial development. It is also found that the SSI units have become more capital intensive than labour intensive.

Gurusamy S\textsuperscript{9} in his study has concluded that the SSI units in Tamilnadu are confronted with so many problems and if they are expected to play the role assigned to them effectively, a right type of climate and effective solution of the problems have to be provided as problems of SSI are multi-dimensional in nature.

Hrishkesh Battacharya\textsuperscript{10} in his study had found that the need for proportionate increase in capital is inversely related to the size of the small firms. In other words, the smaller the firm, the larger the proportionate increase in finance required to enable it to effectively respond to the demand for its products.

Ilangoovan K.\textsuperscript{11} in his study stated that the study of technology observed in different industries and the comparative technologies in other areas will be helpful both within and outside the district.

In Cuddalore,\textsuperscript{12} the District Industries Centre, provides all the services and support facilities to the entrepreneurs for setting up of small and village industries. This includes identification of suitable schemes, preparation of project and feasibility reports, arrangements for credit facilities, machinery and equipment, provision of raw materials and extension services. Other activities of DIC include provisional and permanent registration, cottage and handicrafts Industries registration, implementation of PMRY scheme, New Anna Marumalarchi Thittam, EDP for women, Export guidance, cluster Development Programme, single widow clearance, industrial facilitation councils, industrial co-operative societies etc.,

In Gujarat,\textsuperscript{13} infrastructure facilities to salt works and welfare schemes for salt Workers like - approach road to salt works, Jetty for export of salt, rest sheds, protective kits, mobile medical vans, mobile ration vans, supply of drinking water by pipeline and tankers, provision of balvadi and anganvadi for the children of salt workers, rooms for schools, computers, school uniforms, educational kits, scholarship for higher studies etc. are offered under various schemes.

\textsuperscript{11} Ilangoovan, K., ‘Development of Small Scale Industrial units in Composite Thanjavur District with special reference to Fiscal incentives’ (Unpublished Ph.D., Thesis), March 1998
\textsuperscript{12} http://cuddalore.nic.in/industries.htm
\textsuperscript{13} http://ic.gujarat.gov.in/promo-sch/welfare_activities.html
In Madurai,\textsuperscript{14} there is a setback in industrial development as compared to other parts of Tamil Nadu and India. The major industrial units in Madurai are TVS India, the manufacturer of automobiles and automobile spare parts; TVS Sri Chakra, the manufacturer of tyres and tubes for two wheelers; Fenner, the manufacturer of solid woven PVC conveyor belts; and Madura Coats, the manufacturer of textiles. Honeywell, a diversified technology and manufacturing company, serving customers worldwide with aerospace products and services; control technologies for buildings, homes and industry; automotive products; turbochargers; and specialty materials has recently started its operations in this city.

In Meghalaya,\textsuperscript{15} in order to imbibe technical and managerial skills to entrepreneurs, the District Industries Centres (D.I.Cs) and the Meghalaya Industrial Development Corporation (M.I.D.C.) provides local youths with suitable stipend to undergo training programmes so that they can or set up Industries of their own as self-employment ventures after successful completion of their courses.

In Nammakkal District,\textsuperscript{16} the following activities are carried out: Establishment of multi/storied industrial estates for micro industries has been included in the policy for the first time in the state; Liberal floor space index (FSI) would be considered for plotted development upto 1.5 to 1.7 industrial sheds and upto 2.5 for multi-storied industrial units. Reservation upto20% of

\textsuperscript{14} http://www.southindianstates.com/tamilnadu_districts/madurai/madurai-industries.html
\textsuperscript{15} http://megindustry.nic.in/major.htm
\textsuperscript{16} http://dicnmkl.in/incentives.asp
land in all SIPCOT estates for micro, small and medium industries and 30% of area is reserved for micro industries in SIDCO estates. An infrastructure subsidy of 20% is given for the development of private sector industrial estates. 50% rebate on stamp-duty and registration charges is given to micro and small enterprises for setting up units in industrial estates.

In Ramanathapuram District Industries Centre,\textsuperscript{17} for wide publicity of functions of District Industries Centre, motivation campaigns are conducted periodically by the District Industries Centre. During the mass Contact Programme, the schemes and various functions of the District Industries Centre are disseminated to the public so as to help them to avail of the benefits offered by the Government of Tamilnadu. The various schemes for formation of new industries and assistance provided by DICs are often circulated among the public by various modes such as Bit notices, pamphlets, wall posters and news papers.

In Tiruchirappalli,\textsuperscript{18} the mandate of the mentors who are being drawn from experts in the relevant areas of entrepreneurship is to provide the necessary support to the new entrepreneurs to obtain clearances from local body and government departments. In addition, the mentors will provide support to these entrepreneurs in the areas of marketing, upgradation of technology, manufacturing products as per specification, and fulfilling quality norms. In Tiruchirappalli district, the applications for the new enterprises mostly pertain to fabrication and machining shops, readymade garment units,

\textsuperscript{17} http://www.dicrd.in/about_us.html
\textsuperscript{18} www.hindu.com/2008/11/06/.../2008110656050200
areca nut leaf plate manufacture, leather gloves manufacture, and manufacture of imitation jewellery. As the implementing agency at the national level, the Khadi Village Industries Commission, which has a record of accomplishment of providing employment to about 47 lakh rural populace, is aiming at providing additional employment to 37 lakh persons by the end of 2011-12 through Prime Minister Employment Guarantee Program. Launched on August 15, 2008, the objective of the PMEGP is to facilitate inclusive growth through identifying potential entrepreneurs, preparing project profiles and ensuring hassle free loans by banks.

In Tripura state,\(^{19}\) the Institute continued to help District Industries Centre in the selection of SEEUY beneficiaries, identification of potentially viable sick units and submitting the transport subsidy report. Also it assisted by providing project profiles a list of potentially viable units thrust industries etc. Further it advised on Policy matters from time to time.

In Vellore,\(^{20}\) the leather industry occupies a very important place in the industrial map of Vellore district. This traditional industry has registered a good progress in the late 80’s. As on March 2008, there were 1,226 leather units spread over in the district mainly in Alangayam, Madhanur and Wallajah blocks. Vellore District has dominant presence with regard to leather and leather based industries. Tamilnadu accounts for more than 35 percent of the country's export of leather and leather-related products such as shoe uppers, shoes, garments, and so on. Rising to the occasion, the state government is

\(^{19}\) http://exim.indiamart.com/sisi-network/sisi-agartala.html
\(^{20}\) http://www.dicvlr.in/industry.php

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geared up to provide all possible subsidies and infrastructural support in the form of setting up industrial and common effluent treatment plants etc. Thus, the substantial share of the State, in the leather market in the years to come, is ensured.

Inbalakshmi. R,\textsuperscript{21} in her study has compared and analysed the growth of SSI units in India, Tamilnadu and Dindigul district.

Kamalakannan. R,\textsuperscript{22} in his study has analyzed the financial assistance provided by commercial banks, examined the major problems faced by SSI, units and has offered relevant suggestions. He has concluded that in the Indian economy where population pressure is high, resources are abundant and capital is scarce, SSI units alone can offer proper solutions for economic ills. Moreover SSI units have a good export potential. The Government of India also has emphasized the importance of SSI units for achieving socio-economic objectives like generating more employment, removing regional disparities and reduction in economic backwardness of the rural area. However, the SSIs often suffer from own resources preventing further investment.

Kannan Nair, K\textsuperscript{23} in his article ‘Entrepreneurship Development in Small and Rural industries has stated that entrepreneurs play a very important role in developing the economy of a country. In a developing economy like India,
there are ample opportunities for entrepreneurs. They can make use of the
unutilized resources by initiating entrepreneurial ventures. India needs more
entrepreneurs for utilizing the locally available resources and manpower.

Lakadawala. D.T and Sanderara J.C.\textsuperscript{24} in the study of SSI in Bombay
find that 342 firms in 391 cases have borrowed funds. In two thirds of these
cases, loans have come from traders.

Manoharan. P.\textsuperscript{25} in his research work has reviewed the programmes
sponsored by government and other institutions for the development of SSI
units studied the financial conditions of SSI units and have identified the
causes of sickness among the SSI units.

Mary Jesselyn,\textsuperscript{26} has concluded that in Philippines, the government
agencies were able to direct financial assistance through banks, co –
operatives etc to small and medium enterprises. The government has also
increased its efforts in providing new modes of financing through the creation
of Small Business Guarantee and Finance Corporation (SBGFC). Smaller
enterprises can avail funding which initially was available to larger and more
stable firms only. The Magna Carta for smaller enterprises also contains
provisions for mandatory allocation, which requires commercial banks and
other financing institutions to set aside a portion of their loanable funds for the
exclusive use of small and medium enterprises.

\textsuperscript{24} Lakadawala. D.T, and Sandesara. (1989), “Small industry in Big city A survey in
Bombay”, Bombay University Press, Bombay,p.70.
district”, Ph.D Dissertation ,Bharthidasan University, Tiruchirappalli, p.275.
Mary Jesselyn. Co (2004), ‘The formal Institutional framework of Entrepreneurship in the
Murugasean. P, in his study has concluded that it is to be appreciated that, in spite of various problems, the SSI units in India have registered satisfactory performance. Their contribution to national economy is considerable and beneficial.

Murugesan. V in his study has analyzed the socio economic background of select entrepreneurs. He has brought out the relationship between socio cultural factors and the performance of entrepreneurs. He has found that a majority of tiny scale entrepreneurs belong to those communities with non-industrial community background. In the case of small, medium and large scale units, the industrial communities like Brahmins, Chettiars, Naidus and Muslims were found concentrated. He had also found that among medium and large scale units, the average, productive capital per unit, in the maximum in cotton and textile group followed by tobacco processing group, chemical products group and service units in that order.

Namasivayam.N and Ganesan.S, view that the commercial banks have played a significant role in supporting the SSI movement in India. They have continuously been evolving special schemes and approaches to suit the rapidly growing and changing needs of the sector.

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Neelamegam.R,\(^{30}\) in his study concluded that there must be two separate independent and autonomous apex financial institutions one for large and medium units and the other for SSI with their constituent institutions, specialising in clearly demarcated area of operations in relation to the industrial sectors they cover, to facilitate and assure adequate and proper flow of institutional finance to industries as a whole and particularly to SSI.

Pareek.H.S,\(^{31}\) has made an attempt to evaluate the contribution of different institutional and non-institutional sources for meeting the financial needs of SSI. On an average, about half of the net capital employed was owned by the entrepreneurs.

Prasain. G.P. Nixon Singh. E. and Sharat Singh. N,\(^{32}\) have noted that there was a severe lack of capital as well as credit, largely because of low productivity in many branches of small scale industries. They have recommended to the commercial banks and financial agencies to establish specialized branches at least one in every district headquarters to cater to the financial needs of small entrepreneurs.

Rajalakshmi.V,\(^{33}\) in her study has concluded that among institutional borrowers, borrowers from banks are more in number. This may be due to very low disbursement of loans by co-operative societies. The borrowers

accept their poor performance in repayment of loans. The main reason being, the uncertain income they get due to fluctuations in fish catching.

Rajan Kumar and Subhash Chander,\textsuperscript{34} focused that most of the small scale industries in Punjab depended heavily on the owner’s capital for financing fixed capital. They resorted to long – term borrowings under compulsion and not as a matter of policy or convenience to take advantage of favourable financial leverage. Commercial banks are the most prominent institutions approached by the units for long – term borrowings followed by Punjab Financial Corporation, Punjab Small Industries Development Corporation of India and District Industrial Center.

Rajendran.N,\textsuperscript{35} has evaluated the policies and plans relating to the development of SSI, analyzed the role of industrial promotion institutions in the development of SSI, and highlighted the problems faced by the SSI in availing the facilities from various institutions. He has concluded that for advancing loans, the collateral security sought by the banks stands as an impediment.

Ram K. Vepa\textsuperscript{36} has expressed the view that the basic approach of DICs is not to disrupt the existing occupational patterns at the rural levels but to help those who are already engaged in traditional occupations and improve upon them to provide a livelihood for themselves.

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\item Ram K. Vepa, DICs Progress – Neither Speculator nor Unimpressive, SSI Magazine, Annual Number June 1979
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Ram Murthy S, Mary Jessica and Krishna Kumar T. have stated that the promotion of small scale industrial units speaks the health of a nation as they are poised to make a dent on production and employment. Unfortunately small scale industrial units are grappled with several problems relating to marketing, lack of finance, non-availability of adequate raw materials, heavy taxation etc. The prevailing situation calls for immediate remedial measures so that these units could fulfill the objectives set before them.

Ramachandra Rao, Abhiman Das and Aravind Kumar Singh, had viewed that the definition and coverage of the small scale industrial sector is being revised from time to time by excluding more and more commodities from the reserved small-scale industries list and also through liberalizing the credit delivery mechanism of the banking industry. Despite increase in the coverage of the small-scale industrial sector, its share in bank credit had decreased and the growth has fluctuated to a very large extent.

Ramachandran.S had concluded that for easy availability of finance, the activities of Central and state government agencies must be coordinated in a fruitful manner by establishing a district level agency, which should have a direct contract with the SSI units and the central government at large. The bank managers of the special branches should be vested with more powers to grant easy credit to the needy units and the staff members of the special branches should be motivated through special lectures to realise the importance of SSI units for the development of a nation.

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Ramakrishnan K.T,\textsuperscript{40} has pointed out the nature and magnitude of financial problems faced by the SSI of India and the role of government, SFC and Bank financing in this sector. The methods of financing followed by several countries like Japan, USA, UK, Europe, Canada, Australia etc, have been highlighted in this study.

Ramakrishnan. D.E,\textsuperscript{41} the President of the National Confederation of Small Industry has said that the small scale and tiny sector industries in India had been hit hard by banking norms that were implemented on the basis of the international standards. One of the causes of paramount concern to the small scale industry was the banking norm of treating a 90 days overdue account as non–performing asset.

Ramakrishnan. P,\textsuperscript{42} in his study found that entrepreneurs prepared to pay high rates of interest to non-banking lending sources to avoid bank formalities.

Ramana Reddy, Krishna Reddy.B and Maddileti.K,\textsuperscript{43} viewed that the State Financial Corporation constitutes an important policy instrument in fortuning the development of small industry in backward areas. This paper has developed an appropriate methodology for estimating units, employment and investment due to credit deployment and has analyzed their nature and pattern. It has also studied the role of SFCs in providing entrepreneurship development.

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\textsuperscript{42} Ramakrishnan.P (1975), “New entrepreneurship in SSI in Delhi”, Economic and Scientific research foundation, Delhi, p.36.
\end{footnotesize}
Ramasamy, T.,\textsuperscript{44} in his study entitled had studied the extent of growth of SSI and the diversification of them in Virudhunagar district. He had studied the factors influencing the growth of the SSI and the diversification of them in Virudhunagar district. This study had brought to light certain problems faced by the SSI units of Virudhunagar district. The suggestions offered in the study may be suitably incorporated by the government in their policy framework to solve the problems of SSI.

Reddy T.S. and P.N. Reddy\textsuperscript{45} had examined the day-to-day functioning of the DICs and have pointed out the constraints that persist. The study has been confined to Ananthapur district in Andhra Pradesh.

Sahdeo Pande\textsuperscript{46} had stated that small scale industries as well as village industries suffer from innumerable problems which scuttle their growth. Unhealthy competition with large scale industries coupled with poor financial support further aggravate their problems. To ensure quick development of these village based industries, their problems are to be sorted out urgently. The new industrial policy will go a long way in salvaging these industries from decay.

Sakriya\textsuperscript{47} had stated that Indian entrepreneurs have proved their mettle worldwide. In the highly demanding environment, Indian entrepreneurs have demonstrated their outstanding entrepreneurial capability of an enormous capacity for hard work. He had suggested that to overcome the number of handicaps, small entrepreneurs should come forward to organize consortia.

\textsuperscript{45} Reddy T.S. and P.N. Reddy – SEDME Vol XII, No.3, Sep 1980 P 235
\textsuperscript{46} Sahdeo Pande, ‘A Critique of Problems of Small and Cottage Industries in India, Khadi Gramodyog, November 1990, P.90
Sanjib Kumar Borkakoti\textsuperscript{48} had stated that the entrepreneurs of Nagaon district were found to go ahead with their ventures in spite of a dilapidated infrastructure. In some cases, the roads were having one foot deep pot-hole in several places to reach the industrial units. However, the entrepreneurs were high spirit. Even the railway facility was not sufficient for the industries of Nagaon because of which they were compelled to opt for road transport. The facility of piece-meal booking is not available for these entrepreneurs in an appropriate manner. As they are small scale producers unlike their counterparts elsewhere, they cannot fill the minimum number of wagons. Therefore, the minimum number of wagons to be booked should be reduced in order to facilitate the producers of Nagaon district, or for that matter all entrepreneurs of Assam.

Sanjiv Narayan,\textsuperscript{49} has said that the best of small and medium enterprises got credit at interest rates which are at least around 175-200 basic points higher than there of blue chip large corporates. He had pointed out that even aggressive private sector and foreign banks were of no help. They are willing to lend but only at higher interest rates.

Sathya Sundaram,\textsuperscript{50} has pointed out that inspite of awareness in the urban areas, the SSI units were unable to progress beyond a limit because of delayed sanctions of loans. He makes out a case that timely financial help and relaxation of rules are necessary for the survival of SSI units.

\textsuperscript{48} http://www.assamtribune.com/scripts/details.asp?id=apr2609/edit2
Sekar. P.\textsuperscript{51} in his study had examined the contributions made by the various agencies in providing financial assistance to SSI, studied the flow of credit and identified the problems of financial institutions in assisting SSI units. His findings show that the State Bank of India, its subsidiaries and the nationalized commercial banks are the major sources of institutional credit for working capital.

Shaney M\textsuperscript{52} has analysed the implications of the government policy to establish DICs and identified two basic shortcomings. They were a burden of a developmental role on bureaucracy in executing regulatory controls and it is highly biased in favour of urban areas to serve as an instrument of industrial growth in the rural pockets.

Subbaraman K.R.\textsuperscript{53} had stated that job generating capacity of village industries cannot be over-emphasised. Unemployment breeds poverty and it can be eradicated by spreading the network of village industries in every nook and corner of the country. Products of village industries had certain permanent values and these should be properly relayed to the people motivating them to patronize the same.

Subbiah.A. and Navaneethakrishnan.K\textsuperscript{54} had studied Small-Scale industrial units and their problems, Lack of finance was one of the major

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obstacles in the development of small scale units. Since most of the SSI units were either partnership firms or sole proprietary concerns, their internal resources are inadequate to meet their requirements. The commercial banks providing financial assistance to SSI units should take into consideration the economic viability of units rather than the value of the security provided.

Sujatha V.\textsuperscript{55} has analyzed the factors influencing the development of entrepreneurship and has assessed the size and growth of small scale industrial units. She has categorized the factors as personal, environmental and organizational. She has found that there is no significant association between the locational factors and the growth of entrepreneurship in the district. The price fixation policy for the products of small scale Industrial units in the district was determined by the demand for the product and the needs of the consumers.

Suresh.S.\textsuperscript{56} had stated that financial and lending agencies should not allow the defaults for more than limited installments, rather, they may be checked and reported to the authorities concerned for further extension or stopping the assistance.

Thilakam.C.\textsuperscript{57} had examined the role of commercial banks in financing SSI units, and identified the factors influencing bank finance to SSI units.


Thingalaya. N.K.\textsuperscript{58} had described that new generation banks were normally not interested in small amounts of credit. They had ventured in to this only after the upward revision is made in the definition of small and medium sector, and with a narrow base of advances made; their progress in credit disbursements appears impressive.

Upadhyay N.\textsuperscript{59} has reviewed the progress achieved by the DICs in Rajasthan and has come to the conclusion that with greater coordination among the various functionaries the DICs shall be able to play a still more effective role.

Vellaichamy R.\textsuperscript{60} in his study had measured and analyzed the growth of selected SSI units in terms of 10 elements designed as components of growth. The role of DIC has also been immense in promoting SSI in this district. Self employment schemes and measures of rehabilitation implemented by the DIC are in progress. Industry wise, Engineering and allied industries are found to progress well with higher efficiency. The main problem faced by the SSI units is in marketing their products and getting adequate working capital.

Vikram Chandha\textsuperscript{61} in his study on financing the modernization of small industries, had stated that the problems encountered by the SSIs range from the shortage of credit and finances, under utilization of capacities, competitiveness in the output and product markets, to the inadequacy of industrial facilities like power.

\textsuperscript{59} Upadhyay, N., Dr. DICs hold promise, Economic Times, Vol XX No. 92, 4-6-80, p.10
How the present study differs

Various studies had been conducted so far on small scale industries, their performance and capital structure. However, no specific study has been conducted in relation to the role of District Industries Centre with reference to Sivagangai District. The study is unique as it is related to one of the backward districts of Tamil Nadu with regard to industrialization. The samples were collected from urban, semi urban and rural areas. The study concentrates on the various performance aspects of small scale industries promoted and assisted by the District Industries Centre.