CHAPTER - I
INTRODUCTION AND DESIGN OF THE STUDY

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1.1 Introduction

In Marxist literature, "industrialization" in the narrow meaning refers to the establishment and development of the production of the means of production; in a broader sense, it refers to the completion of the industrial revolution and the transfer of the economy to industrial methods of production. Taken together, these meanings imply that industrialization begins with the setting up of heavy industries for the production of the means and when an adequate industrial potential has been created, the entire economy is transferred to the industrial methods of production. Thus, these two meanings correspond to the initial and the concluding stages of industrialization.

Industrialization is regarded as the world's first greatest revolution. It has played a very significant role in the process of economic development in countries all over the world. Therefore, the problem of industrialization and economic development in developing countries like India, has been engaging the attention of economists, planners and administrators since the second half of the 20th century.

In the words of Myrdal, Industrialization can serve as an effective instrument to uplift the socio-economic conditions of the people. Industrial sector, which possesses a relatively high marginal propensity to save and invest, contributes significantly to the eventual achievement of a self-sustaining economy with continued high levels of investment and rapid increase in income and industrial employment. It is thus clear that industrialization is a pre-requisite for raising the national as well as per capital income and to remove unemployment and under employment.

Industrialization accelerates economic development through structural transformation. Economic development implies significant changes in the sectoral composition of income and employment. And by definition industrialization involves fundamental changes in the structure of an economy both in terms of output and
occupational pattern of workforce. As a first step, industrialization initiates a shift away from the land-based agriculture and allied activities to the man and machine-based secondary and tertiary economic activities. Such a shift which moves workforce from the relatively low-productivity economic activities to the relatively high-productivity economic activities accelerates economic development. This kind of structural changes has taken place in almost all industrially advanced economies.

In India, there are highly organized large-scale, medium and small-scale industries besides cottage industries and the recently conceptualized and added tiny sector. The large and medium industries have their place depending on the nature of the product, raw materials, locational advantages, national requirements, priorities, transportation and the interest of the general public. The large and medium industries are only a partial answer to the socio-economic needs and problems of the developing countries. The promotion of small industries and the traditional cottage and village industries in rural areas play a much-needed complementary role in balanced development.

Even though industries, in general, are spread both in rural and urban areas, their concentration predominantly has been in urban centres. In view of the inherent limitations with respect to agriculture in sustaining the growing population, the time has come to gradually promote and develop small-scale enterprises in rural areas along with improvements in agricultural practices towards higher productivity. This process of generating industrial activities in rural areas may be called “Rural Industrialization”.

Manufacturing activities in rural areas are usually carried on in a small-scale. In view of this, small-scale industries in rural areas may help to diversify the rural economy and stimulate income-generating opportunities for rural people. There are a number of positive factors that facilitate promotion and development of small enterprises in the rural areas. Large-scale industries usually absorb a large share of the investment but generate
only a small number of employment opportunities. Small-scale industries, on the other hand, employ a large proportion of the labourers employed in manufacturing sectors in the developing countries. Moreover, in the rural areas there are people who are able to accumulate small amounts of capital and are willing to venture into some entrepreneurial activity or the other. Small-scale industries, in fact, provide a good starting point for mobilization and utilization of both their talents and their capital. Employment opportunities available in urban centres in developing countries are not sufficient to absorb the influx of rural labour in search of employment. This creates numerous problems. A possible and in a way, the only solution would be for rural industrialization to create employment opportunities for local labour and thus reduce rural-urban migration. Large-scale industries very often depend on the technology from industrialized countries and therefore show a high degree of dependence. Most of the small-scale industries in the rural areas, on the other hand, can be developed with indigenous technology that is familiar to the people. It does not mean that modern technology could not be introduced in rural areas. In course of time, useful, efficacious, cost effective and high productive technology will spread throughout the urban and rural areas.5

The main aims of industrial development in the rural areas are:

i) To provide locally gainful employment opportunities in fields other than agriculture.
ii) Optimum utilization of locally available material and human resource.
iii) To meet internal demands in particular and external demands in general.
iv) to reduce the outflow of raw materials; and
v) to minimize the outflow of human resources to urban areas by providing social and financial security.6
1.1.1 Gandhiji and Small-Scale Industries in rural area

The massive development of small-scale industries to regenerate India’s stagnant economy was first mooted by Mahatma Gandhi in 1937 when he propounded his theory of Trusteeship management for economic progress. Today, these principles are the framework of Social Welfare Economics ensuring our have-nots their Social Welfare Entitlements of Employment, Housing, Food, Drinking Water, Clothing, Education and Health Care.\(^7\)

Mahatma Gandhi had drawn the attention of people towards the development of rural industries as a part of the freedom struggle when he urged the Indians to reject not only western products but western life-styles and make it a point of honour to use only village articles whenever and wherever available. He had the confidence that most of our wants could be supplied by our villages.

Mahatma Gandhi always believed that “India lives in her villages and the cities live upon the villages”. Before the advent of the British rule, the rural economy was based upon a harmonious combination of agriculture and village industries. Our village industries destroyed during the British Era and the masses had to fall back for their sustenance on agriculture. Year after year more people were thrown on to the land. This led to poverty and perpetual indebtedness of the masses of India living in villages and their exploitation by people in the cities. The only possible solution open to Mahatma Gandhi to diminish the increasing pressure on land, to provide gainful employment and to stop urban exploitation was to industrialize the country side again through the revival and encouragement of all rural industries.

Gandhiji stood for ruralism. He had not used the term ‘rural industry’ as a synonym of cottage or household industry located either in urban or in rural areas. He had used the term ‘rural industry’ only for industries located in rural areas. He was interested
in the development of rural areas and rural masses so that the cities did not exploit them and that is why he emphasized the revival and encouragement of all rural industries located in the rural area.

From the Gandhian viewpoint, rural industrialization should not merely mean industrialization of rural India. It should, in fact, lead to ruralization of Indian industries wherein the production apparatus and technology, suitable to Indian ethos and culture and rural needs and aspirations, would play a decisive role in generating and sustaining real happiness while ensuring harmony with nature. The following basic inferences have been derived from the Gandhian economic approach to rural industrialization.

i) In the Gandhian perspective, rural industrialization is welcome, for it promotes decentralization of industry and is not city-based.

ii) Gandhiji was not against mechanized industries big or small, provided that they subserved the overall interests of the rural people.

iii) Priorities of production have to be planned and implemented to suit the real needs of the masses.

iv) Industries should be labour intensive, generating more employment.

v) Village and cottage industries should be encouraged side by side.

vi) Industries should be labour intensive, and environment friendly.

vii) Application of new technologies should be appropriate to regional needs, making use of indigenous resources.

Efforts should be made to reduce the disparities in income distribution with a guarantee of reasonable minimum living income.

India needs the development of rural industries which are not only crucial for accelerating industrial growth but also for achieving the social objectives of dispersal of industry and equitable distribution of wealth. Rural industries will encourage a new class
of entrepreneurs, particularly the technocrats and the educated unemployed to start their own industrial ventures. The development of rural industries has come to be regarded as an integral part of rural development and to an extent, it included the small-scale industries also as an element in the overall programme of industrialization.

The basic objectives of industrialization are eradication of poverty and unemployment, increasing the per capita income and accelerating the overall economic growth. Employment oriented industries should be given priority to increase the socio-economic status of the people through industrialization. Industrialization influences the growth of national output and income. It also improves the entire national life by affecting the socio-economic, political and cultural dimensions of a society. Moreover, industrialization would bring about a more equitable distribution of income among people in the long run.

Industrialization (and the accompanying urban development) helps in accelerating the pace of agricultural growth in a number of ways. It increases the demand for wage goods, of which, initially food is the most important. The production of cash crops is stimulated, the development of agricultural processing industries encouraged and the integration of the rural and urban economies made possible.

By encouraging the reorganization of agriculture on a more efficient, large scale, mechanized basis, industrialization creates conditions which are highly favourable to increase productivity in agriculture. Agriculture contributes to industrial growth and in turn, industrial development contributes to agricultural development. The independence of agriculture and industry are complementary and not competitive.

1.1.2 Small-Scale Industries

The small-scale industries sector occupies a pivotal position in the industries sector. Liberalization of the economy and reforms has an impact on the health of this
sector. The results of the latest small-scale industries census are a pointer that they have survived mainly due to product and geographical market segmentation and policy protection. However, globalization and liberalization have affected the Indian small-scale industries units to a great extent. The role of segmentation and protection got reduced and shifted them from “protection-led growth” to “competition-led growth”. The removal of quantitative restrictions, reduction in import duties have opened up foreign markets to Indian small-scale industrial units as much as the Indian markets are open to foreign goods. The efficient and export-oriented small firms have been benefiting from this development by stabilizing and maintaining the quality requirements. At the policy level, the endeavour has been to balance the imperatives of competitiveness and the overall development of the sector.

1.1.3 Small-Scale Industries Registration in India

The data regarding the number of registered units compared to the total small-scale industrial units in India are alarmingly high. The units’ unorganized sector, that is, in the unregistered units account for about 80 per cent to 90 per cent and only 10 per cent to 20 per cent of the units are registered. The following table depicts the registration position of small-scale industries in India.
Table 1.1

Statement of Small-Scale Industries Registration

<table>
<thead>
<tr>
<th>Year</th>
<th>Registered</th>
<th>Per cent</th>
<th>Unregistered</th>
<th>Per cent</th>
<th>Total</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995-96</td>
<td>11.57</td>
<td>13.97</td>
<td>71.27</td>
<td>86.03</td>
<td>82.84</td>
<td>100</td>
</tr>
<tr>
<td>1996-97</td>
<td>11.99</td>
<td>13.91</td>
<td>74.22</td>
<td>86.09</td>
<td>86.21</td>
<td>104</td>
</tr>
<tr>
<td>1997-98</td>
<td>12.00</td>
<td>12.85</td>
<td>81.36</td>
<td>87.15</td>
<td>93.68</td>
<td>109</td>
</tr>
<tr>
<td>1998-99</td>
<td>12.32</td>
<td>12.68</td>
<td>84.83</td>
<td>87.12</td>
<td>97.15</td>
<td>104</td>
</tr>
<tr>
<td>1999-00</td>
<td>11.32</td>
<td>12.68</td>
<td>84.83</td>
<td>87.32</td>
<td>97.05</td>
<td>100</td>
</tr>
<tr>
<td>2000-01</td>
<td>13.10</td>
<td>12.96</td>
<td>88.00</td>
<td>87.04</td>
<td>101.10</td>
<td>104</td>
</tr>
<tr>
<td>2001-02</td>
<td>13.75</td>
<td>13.07</td>
<td>91.46</td>
<td>86.93</td>
<td>105.21</td>
<td>104</td>
</tr>
<tr>
<td>2002-03</td>
<td>14.68</td>
<td>13.33</td>
<td>95.42</td>
<td>86.33</td>
<td>110.10</td>
<td>105</td>
</tr>
<tr>
<td>2003-04</td>
<td>15.40</td>
<td>13.13</td>
<td>98.52</td>
<td>84.03</td>
<td>117.24</td>
<td>106</td>
</tr>
<tr>
<td>2004-05</td>
<td>16.27</td>
<td>13.10</td>
<td>102.40</td>
<td>82.70</td>
<td>123.81</td>
<td>106</td>
</tr>
<tr>
<td>2005-06</td>
<td>18.70</td>
<td>15.50</td>
<td>104.70</td>
<td>84.85</td>
<td>128.40</td>
<td>104</td>
</tr>
</tbody>
</table>

Source: www.india.ssi

On an average, only 14 per cent of the small-scale industrial units are registered and 86 per cent are not registered. As per the trend analysis, it shows only 4 per cent increase over the years under study. However, the registration gradually shows a positive trend.

Table 1.2

Overall view of Small-Scale Industries in India (2005-06)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage share in G.D.P</td>
<td>6.75 percentage</td>
</tr>
<tr>
<td>Estimated number of units</td>
<td>123.40 units</td>
</tr>
<tr>
<td>Percentage share in industrial value</td>
<td>40 per cent</td>
</tr>
<tr>
<td>Number of items produced</td>
<td>Over</td>
</tr>
<tr>
<td>Reserved items for the sector</td>
<td>326</td>
</tr>
<tr>
<td>Employment in persons</td>
<td>294.90 lakhs</td>
</tr>
<tr>
<td>Export value of small-scale industries</td>
<td>124476 crores</td>
</tr>
<tr>
<td>Direct share in total Export</td>
<td>35 per cent</td>
</tr>
<tr>
<td>Indirect share in total Export</td>
<td>15 per cent</td>
</tr>
</tbody>
</table>

Source: Export Promotional Council
With 326 items reserved exclusively for the small-scale industries, and more than 7500 items for the small-scale sector, the production of the sector has been increasing. Even though the exports have increased in value, the share in its total production remains constant. The sharp decline in the export of some traditional goods has been overtaken by modern non-traditional goods.

Table 1.3

Industrial Profile of Tamilnadu

<table>
<thead>
<tr>
<th>Small-Scale Industries 2005-06</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Small-Scale Industries Registered (No. of Units)</td>
<td>511351</td>
</tr>
<tr>
<td>Employment in small-scale industries</td>
<td>3593382</td>
</tr>
<tr>
<td>Investment in small-scale industries (Rs in lakhs)</td>
<td>1610251</td>
</tr>
<tr>
<td>Production (Rs in lakhs)</td>
<td>10391164</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Registered Factories 2005 (in Lakhs)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Working Factories</td>
<td>0.26</td>
</tr>
<tr>
<td>Estimated Workers</td>
<td>12.71</td>
</tr>
<tr>
<td>Mandays Worked</td>
<td>3448.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Labour (in Nos) (2005)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade Unions Registered</td>
<td>9813</td>
</tr>
<tr>
<td>Strikes</td>
<td>51</td>
</tr>
<tr>
<td>Mandays Lost (in Lakhs)</td>
<td>6.51</td>
</tr>
<tr>
<td>Lockouts</td>
<td>20</td>
</tr>
<tr>
<td>Mandays Lost (in Lakhs)</td>
<td>4.49</td>
</tr>
</tbody>
</table>

Source: www.tn.ac.in
The above table gives a picture of the industrial profile that prevailed in Tamilnadu. As far as the small-scale industries are concerned, there were 511351 units providing employment opportunities for 3593382 persons. The investment is 1610251 lakhs with the production of 10391164 lakhs. Hence the performance is good.

1.1.4 Export Performance of Small-Scale Industries

The exports of small-scale industries have been clocking excellent growth. It is fuelled by the performance of garments, leather goods, gems and jewellery. Besides, its contribution to the tune of 35 per cent to the total exports, it also contributes 15 per cent to the exports indirectly. This takes place through export orders from large units or the production of parts and components for use of finished exportable goods. The major export markets identified heavy potential for use of finished goods to enhance small-scale industries exports to United States of America, Japan and European Union.

The share of small-scale industries exports to the total exports of the country maintained a constant percentage without wide changes centering around 27 per cent to 35 per cent since 1986-87. The reason was found to be the poor quality of goods and its poor packing. Moreover, the traditional goods are encouraged whereas the non-traditional goods are not given due importance. Indian producers usually face the marketing problems, advertising problems and financial problems. Other than these, import liberalization has brought about adverse effect for the exporters. Above all, the technology adopted was not up to the mark when compared to the competitive world market.

Small-scale sector has acquired a prominent place in the socio-economic development of the country. Its performance is creditable. Yet, a proper and innovative approach still alludes. The sector needs very many corrective and promotive steps to succeed in the twenty-first century. The key to success for small-scale enterprises would lie in looking at the globe as a market and repositioning it self as a means to get into the
global market place and succeed out there. Maximization of exports has assumed added importance in the context of current balance of payments position. The prospects for export of non-traditional items such as ready-made garments, leather and marine products, processed food, plastics and engineering goods etc. have improved. The linkages between the small-scale and large-scale industries get strengthened through ancillarisation and sub-contracting. The growing dependence of large and medium industries on the small-scale sector for meeting their requirements of parts, components and intermediaries coupled with the policy of achieving higher level of indigenization of items hitherto imported has created a more congenial climate for the rapid growth of small-scale industries sector.

There are ample evidences to suggest that the sector will continue to play an important role in the industrial development of the country through sustained process of technology upgradation and quality improvement in future.

1.2 Statement of the Problem

Small-scale industries form the backbone of the Indian manufacturing sector. The small-scale industries account for about 95 per cent of the industrial units and contribute about 40 per cent of the value addition in the manufacturing sector, nearly 80 per cent of the manufacturing employment and about 35 per cent of the exports. They constitute an important means to tackle the problem of unemployment and they can be used as an important tool to prevent concentration of economic power in the hands of few individuals. They assist the development of semi-urban and rural areas through the utilization of local skills, raw materials and resources.

Due to competition with large scale producers, Multi National Companies and even from similar type of units and paucity of financial resources, small-scale industries do not get raw materials of good quality and at times they have to pay comparatively higher prices for the raw materials which cause the increasing prime cost of production and
thereby decrease the profitability position. The old and obsolete method of production which leads to the technical inefficiency of these industries in turn, increases the cost of production and render them unfit to compete with large scale units.

The existing methods of marketing of products of small-scale industries are defective. There are no sound channels of communication between the small scale producers and the ultimate consumers. In many cases, these producers do not know the domestic and international markets where their products are consumed. Lack of adequate statistical data about small sector is still posing a serious menace in their development and growth. In a nutshell, the major problems faced by the small-scale industrial sector are access to adequate credit, technological obsolescence, infrastructural bottlenecks, marketing constraints and a plethora of rules and regulations.

As far as Kanyakumari District is concerned, it is fully resource oriented in agriculture, mineral, forest, marine and also in the availability of human skills. Regarding human resources, it has got a very high rate of literate population having fascination towards white-collared and secured jobs. They are reluctant to make investment to set up new industrial ventures. Consequently, the available raw materials are transported to other places to start industrial units, keeping the district as an industrially backward one. Non-availability of vacant lands for industrial utilization and the high cost of land have aggravated the situation further. Hence this district is faced with a slow pace of industrial development.

Kanyakumari District is an industrially backward district which has only a few large-sized industries. However, there is a large number of small-scale, tiny, handicraft, village and cottage industries. The district is bestowed with natural resources and has a good scope for rubber and cashew based units as well as handicraft and cottage industries. Thus, there exists a good potential for industrial development. The district has 11855
registered small-scale units as on 31st March 2006. There are 632 factories, of which five are the major ones viz., Nylon Rubber Gloves, Denis Fishnet, Ajantha Fishnet, Seva Pharmaceuticals and Vasanth Industrial Rolling Shutters, which provide employment to about 35640 persons. Four thousand and eight hundred and seventy families are engaged in the handloom sector. About 13700 cotton looms are registered with the cooperative societies of which, 9800 looms are reported to be active. There are 7100 registered handicraft units in the district. District Industries Centre has an industrial estate at Konam (Nagercoil) with a capacity of 45 units. It also has another Industrial Estate with 55 sheds at Aralvoimozhi. Banking network in Kanyakumari District is really a boon for industrial development in the district. There are 134 Commercial Bank branches besides 24 Kanyakumari District Central Cooperative bank branches to cater to the needs of these industries.

But the survival of small-scale industries in the district is very poor due to various problems they are facing in the production and marketing of their products profitably due to competition and globalization. Hence this study is an attempt to analyze various problems of small-scale industrial units in the district both financially and non-financially and the topic is titled as “A Study of Small-Scale Industries in Kanyakumari District.”

1.3. Review of Literature

Small-scale industries have been given a pride of place in the economy of both developing and developed countries. In fact, the economic prosperity achieved by many developed countries can be linked directly to the growth of this sector. In India too, the small-scale industrial sector has registered rapid growth especially since independence. The growth of this sector and the active support of the government and other agencies in promoting it has evoked much interest and made it the focus of many research studies.
large volume of literature is thus available wherein the different aspects of small-scale industries have been studied at length.

This dissertation is an experimental study based on the data collected from the small-scale industrial units in Kanyakumari district. Various studies on different aspects have also been undertaken and secondary data are also available.

1.3.1 Studies Conducted in foreign countries

The United Nations Industrial Development Organisation’s (UNIDO) study (1969), on small-scale industries in Latin America indicated that the small enterprises with low-level of investment per worker tended to achieve a higher productivity.\(^{12}\)

Graham Bannock (1981) presents a clear picture of the practical problems of the individual small business, shows how they relate to the wider issues of economic policy. He believes that the release of the economic dynamism inherent in the small business sector could help to generate the social and economic change needed for the resumption of inflation free growth.\(^{13}\)

1.3.2 Studies examine the general problems and prospects

Ashok Kumar Singh (1985) in his thesis, analyses the problems, bottlenecks and roadblocks coming in the way of proper development of small-scale industries in Bihar. An effort has also been made to study the incentives and assistance provided by the Government and the infrastructural facilities available in Bihar. A brief account of potentialities and prospects of small-scale industries in the state is also given.\(^{14}\)

Malga Wekar (1973), in his study entitled, ‘Problems of Small Industry in Andhra Pradesh’, has found the lack of infrastructure as a general problem. The Industrial estate alone cannot overcome the locational disadvantages. The infrastructural facilities of small-scale industries are either weak or non-existent in rural areas. In urban areas, with
necessary industrial climate and infrastructural facilities, the growth of industries is relatively faster. Scarcity of indigenous raw materials has been a serious bottleneck. Scarcities of raw materials supplied through quotas are not sufficient to meet the demands of the units. There is much delay in the disbursement of the loans because of the existence of cumbersome procedure and instances of tangible securities\textsuperscript{15}.

1.3.3 Studies related to Entrepreneurship

K. Subramanian and others (1975), in a study based on small-scale industrial units in Madurai city and its suburbs examine the characteristics of small entrepreneurs and the factors that encourage small entrepreneurship. The economic structure of the unit has also been analysed\textsuperscript{16}.

Berna (1991), in his study entitled, ‘Entrepreneurship in Madras State’, highlighted the main characteristics found in the entrepreneurs such as capital, experience of business, technical knowledge and family background. These factors alone promoted the growth of entrepreneurship\textsuperscript{17}.

Resia Beagam S. and Sarnagadharam K. (1994), in their study entitled ‘Female Entrepreneurship in Kerala, revealed that though the entry of women in the entrepreneurship field is a recent phenomenon, they have been attracting the attention of policy makers and government departments by their excellent performance\textsuperscript{18}.

1.3.4 Studies on Employment generation

A.C. Minocha (1980), in his study entitled, ‘Industrial Development in Madhya Pradesh Regional Structure and Strategy for Employment Oriented Industrialisation’ has suggested that the strategy of employment oriented industrialization should aim at the development of small-scale industries in rural areas\textsuperscript{19}. 

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K.M. Rostagi, in his study entitled, “Employment Generation through Small-Scale, Village and Cottage Industries – a case study in Madhya Pradesh” has reported a unique case of growing unemployment and poverty amidst plenty. He is in favour of only small-scale and village industries which makes optimum use of indigenous resources and techniques. According to him, there are hundreds of items which can be produced in rural and in small-scale industrial units more economically than in a large sector.

In a World Bank aided research project on small-scale enterprises in India, Little and others (1987), seek to evaluate whether small enterprises uses human and other resources more efficiently than large ones. They also try to determine whether small firms are more likely to contribute simultaneously to the growth of both output and employment than the larger firms. They conclude that there is considerable evidence that many small enterprises with less than 10 workers are often not the most labour intensive and their capital productivity and technical efficiency are very rarely the highest in the whole size range of establishment in the industry.

1.3.5 Studies that evaluate the functioning of institutions

S. Akram (1977), in one study pinpoints the working results of the Small-Scale Industries Corporations of various states and their national counterpart – National Small Industries Corporation (NSIC).

Prahaladkumar Suman (1986), examines the overall performance of the Bihar State Industrial Development Corporation and exposes systematically and scientifically the troubles faced by the Corporation.

J.C. Sandesara (1988), describes the institutional framework for the small and medium industries in India. The impact of assistance on firms in this sector and the working of these institutions are also analysed. He argues for a fresh approach to the institutional set up and policy framework for this sector.
P.K. Rao (1989), makes an enquiry into the functioning of all State Industrial Development Corporations in India with a view to find out to what extent the objectives have been fulfilled. The causes for good/poor performance are also indentified.

1.3.6 Studies discussing the financial problems

Small Industries Extension Training Institute (1972), in its study, ‘National Small Industries Corporation on Hire Purchase Scheme’ has observed that the growth in the number of units and the expansion of capital-intensity alone may not create the necessary impetus to the growth unless considerable productivity changes have also been effected through further capacity utilization. Most of the units’ utilizing full capacity have been either big export-oriented industries or local need-based activities. The reasons for this under utilization are mostly insufficient demand and inadequate financial resources for working capital.

Mccroy (1956) observes that inadequate capital is the main obstacle to the growth of craftsmen entrepreneurs. Basu S.K (1957) discusses the role and problems of small-scale industries. Emphasizing their importance in the economic programme of the nation, he deals at length with their financial problems and the function of the State Financial Corporations in helping them.

1.3.7 Studies relate to Rural Industrialization

Bepin Behari (1976) in his study entitled, ‘Rural Industrialization in India’ examined the problems, possibilities and perspectives of rural industrialization and discussed the crises in Indian Villages and the need for a new strategy for rural industrialization and the provision of fuller employment in rural and small-scale industrial units and technologies. He analyzed the agricultural development of the village and small-scale industries and created an awareness for incorporating appropriate technologies as principal sources of impetus to the programme of technological transformation in rural
India. Further, he reviewed the various measures undertaken by the Government towards rural industrialization, local industrial growth, agro-based industries, mini-rural cement plant, utilization of annual waste and harnessing of natural power.

Rajula Devi (1984), in her study entitled, ‘Industrialization holds key to Rural Development, found the following serious deficiencies:

(i) Some part of the assistance was provided to relatively larger amongst small-scale units
(ii) Assistance was delivered to towns which were excluded from the purview of the scheme and (iii) Rural artisans did not receive adequate credit.

Banujam, K.V, (1984), in his study entitled, ‘Poverty Alleviation through Rural Industrialization,’ suggested that appropriate technology should be developed to promote the rural small industries.

1.3.8 Studies related to Kanyakumari District

Siddharthan, G. (1980), in his study entitled, ‘Entrepreneurship of Small-Scale Industries – a study in Kanyakumari District’, proved that community and economic background alone would determine the growth of entrepreneurship in Kanyakumari District.

Selwyn Thampiraj, K, (1995), in his study entitled, ‘A study of sickness among Industrial Co-operatives in Kanyakumari District’ revealed that all industrial co-operatives in Kanyakumari district were considered to be sick according to the views of Reserve Bank of India. But some of the industrial co-operatives were making profit.

Pon Murugan, R (1997), in his study entitled, “Industrial Estates in Tirunelveli Region - An empirical study of their impact on the growth of small-scale industrial units”, analyzed the impact of industrial estates on small-scale industrial units located in Kanyakumari district. The study identified the various factors which influence the growth of small-scale industrial units in industrial estates in Kanyakumari district. The factors
were scientific sales management, budgeted production, availability of institutional finance, supply of water at concessional rate, undisturbed working environment, ploughing back of profits, utilization of investment subsidy, nearness to raw materials and utilization of installed capacity.

Thiruvaranganathan (1998), in his study entitled, ‘Industrial Backwardness in Kanyakumari District’ identified the reasons for the industrial backwardness of the district. His major findings are production and marketing problems of Small-Scale Industries in the district.

Jezer Jebanesan M, in his paper entitled, ‘Causes for the Industrial Backwardness of Kanyakumari District’ highlighted the historical causes, locational causes, functional causes, infrastructural causes, cultural causes, production-related causes, social causes, political causes, religious causes, and investment causes that affect the development of industries in the district.

Johnson Raj S, in his paper entitled, ‘Contribution of NGOs in the Industrial Development in Kanyakumari District’, envisaged that the NGOs have played a dynamic role in facilitating industrial development in Kanyakumari District but their contributions are not properly documented and adequately published or popularized. Further, he concluded that the potential of the NGOs is large and with the changing trends, there is every hope that the NGOs will contribute more effectively to the industrial development in the district.

Jezer Jebanesan M, Thomas Franco, and Edwin S. Alexander, in their compilation on the industrial development of Kanyakumari District stressed that the home-coming NRIs who return with sizable savings, exposure and technical knowledge, should be entrepreneurially motivated to invest their knowledge, experience and expertise in useful industrial ventures.
Despite the large number of studies conducted and accumulation of voluminous literature of small-scale industries no comprehensive study has been done.

1.4 Scope of the Study

The present study aims at identifying the factors affecting the industrial development of Kanyakumari District and finds ways and means to develop the small-scale industries in Kanyakumari District. The entire Kanyakumari District is covered for study by considering both the primary and secondary data.

1.5 Objectives of the Study

1. To highlight the small-scale industrial infrastructure in Kanyakumri District.
2. To measure the overall performance of small-scale industrial units in Kanyakumri District and to make a comparative analysis with the performance at the Tamilnadu State level and all India level.
3. To examine the non-financial factors affecting the overall performance of small-scale industrial units in Kanyakumri District.
4. To analyze the financial performance of small-scale industrial units in Kanyakumri District.
5. To study the problems faced by small-scale industries units in Kanyakumri District.
6. To make suggestions for solving the problems and for improving the performance of small-scale industries.

1.6 Hypotheses of the Study

The following null hypotheses were framed for this study

1. There is no significant difference in the mean per unit production by small-scale industrial units in Kanyakumari District and Tamilnadu.
2. There is no significant difference in the mean per unit production by small-scale industrial units in Kanyakumari District and India.

3. There is no significant difference in the mean per unit employment by small-scale industrial units in Kanyakumari District and Tamil Nadu.

4. There is no significant difference in the mean per unit employment by small-scale industrial units in Kanyakumari District and India.

5. There is no significant difference in the mean per unit investment by small-scale industrial units in Kanyakumari District and Tamil Nadu.

6. There is no significant association between type of industry and level of Return on Investment (ROI) of small-scale industrial units.

7. The level of capacity utilized by small-scale industrial units does not significantly influence the level of their ROI.

8. The level of ROI of small-scale industrial units is independent of the age group of the owner of small-scale industrial unit.

9. There is no significant association between the level of education of the owner of small-scale industrial unit and its level of ROI.

10. The level of ROI of small-scale industrial units is independent of the previous experience of entrepreneurs of small-scale industrial unit.

11. There is no significant variation in the rating of the statements.

The first five null hypotheses were framed for applying Z test, next five for applying $\chi^2$ test and the last one for Kolmogorov–Smirnov test.

1.7 Operational Definitions

Operating Profit: It is the normal trading profit before interest and tax during a financial year. It includes the profit earned during the normal course of trading operations. It does not include non-trading/abnormal income and expenditure and pure financial charges.
Capital Employed: It includes operating fixed assets and current assets.

External Liabilities: It includes total long term borrowed funds plus current liabilities.

Financing: The backing of an individual or organization with loans, credit etc.

Growth Rate: A comparison of change during a number of like periods for some aspect of a company, as number of employees, units produced, sales, equity etc.

Marketing: All aspects of the advertising, merchandising and selling of goods and services.

Monopoly: Sole control of a particular line of goods or services in a given market or the means to control distribution and price.

Multinational Corporations: A corporation that operates production plants or branches in more than one country.

Return on Investment: The income expected to be realized from any investment, regardless of size, made by the company in plant facilities, equipment etc. expressed as a percentage of the investment.

Value-Added: The amount by which the cost of goods is increased as the result of processing a system that accounts for such cost.

Consistency: The practice of using the same procedures and basis for recording and reporting financial transactions over a long period of time in order to make valid comparisons between accounting periods as well as reliable projections for the future.

De-regulation: The rescinding of a portion of the Government regulations that pertain to a particular industry with the avowed purpose of creating a more open market with increased competition.

Discrepancy: An inconsistency or abnormal variance between two or more elements.

Enterprise: A business venture, usually implying an element of risk
Entrepreneur: One who organizes and operates a business, usually implying one who is willing to accept risk in the quest for profit.

1.8 Geographical Area covered

The whole of Kanyakumari District is covered for this study, by taking into account all the nine blocks of the district.

1.9 Methodology

The study is descriptive and empirical in nature based on both primary and secondary data. There are 2000 registered small-scale industrial units in Kanyakumari District. So, the sample size is fixed at 200 units. Primary data is collected from 200 sample units. Proportional stratified random sampling is adopted in the present study. The sample size is fixed at 10 per cent of the population size. These registered small-scale industrial units are grouped by District Industries Centre under 21 groups based on the nature of the products produced. Considering 21 groups of industries as strata, the total sample size 200 small-scale industrial units is proportionately divided among 21 strata on the basis of actual number of small-scale industrial units in each stratum to arrive at the sample size of each stratum. This sampling procedure ensures proportional representation of all 21 groups of industries. The individual sample items are chosen at random from each industry following lottery method. The period of study undertaken for the present work covers 10 years which extends from 1996-97 to 2005-2006.

1.10 Framework of Analysis

The analysis and interpretation of data are made with the help of statistical tools and techniques. The overall performance of small-scale industrial units in Kanyakumari District is analyzed through four variables such as production, employment, number of small-scale industrial units and investment. The Linear Trend Equation was used to
measure the trend and average annual rate of change (average annual increase/decrease in absolute term). Then per unit average annual change of each variable (in absolute terms) is found out and compared with per unit average annual change with respect to small-scale industrial units in Tamilnadu and India.

The annual growth rates of each variable are found out during 10 years for small-scale industrial units in Kanyakumari District, Tamilnadu and India. The consistency of growth rates is found out with the help of co-efficient of variation. The growth rates during 10 years along with the level of consistency in growth for small-scale industrial units in Kanyakumari District are compared with those in Tamilnadu State and India.

In order to analyze the overall performances, the Compound Growth Rate of small-scale industries in Kanyakumari District, Tamilnadu and India are found out and compared for each variable.

For analyzing the financial performance of small-scale industrial units the following statistical techniques as well as techniques of financial analysis are used.

a) Du Pont Control Chart
b) $x^2$-test
c) Multiple Regression analysis
d) Pyramid structure Ratios
e) Z test

Du Pont Control Chart and percentage analysis were applied for analyzing the financial performance of small-scale industrial units in Kanyakumari District. Multiple Regression analysis was made to find out the impact of Net Profit margin and Capital turnover Ratio on Return on Investment. Multiple Regression technique was applied to assess the impact of profit and sales on Net profit margin, impact of sales and capital on capital turnover ratio, and the impact of sales, profit and capital on Return on Investment.
$\chi^2$ test was used to examine whether there is any significant association between level of Return on Investments and non-financial variables like type of industry, state of assistance/subsidy received, production capacity used, age of owner of small-scale industrial unit, educational level of owner, experience of owner, socio-economic group of owner and functioning age of small-scale industrial unit.

Kolmogorov – Smirnov Test (K.S. Test) was used to analyze whether there is any significant difference in the rating of seven (opinion rating) on the statements regarding problems faced by small-scale industrial units in Kanyakumari District.

As the sample size exceeds thirty, which falls under large sample, Z test has been applied to test the hypotheses for the mean per unit of production, employment and investment of the Small-Scale Industries in Kanyakumari District in comparison with the Tamilnadu Stare and India.

1.11 Sampling design

Here the proportional stratified random sampling method has been followed. Accordingly, out of the total small-scale industries, the selection has been done proportionately. From the total 2000 units, 200 units have been selected in proportion to the total covering of all categories of small-scale units.

1.12 Data collection

In pursuance of the stated objectives and the hypotheses, the following procedure has been followed for the collection of the data. In order to analyze the general and financial performance of the small-scale industrial units, secondary data have been collected from the records and from various journals and periodicals. And for the purpose of collecting data regarding the problems, the primary source of data collection has been applied by administering the Interview Schedule.
1.13 Period of the study

The study covers a period of ten years from 1996-2006 for secondary data and the primary data during the year 2005-06.

1.14 Field work and collection of data

The researcher has used the Interview Schedule (vide appendix – A) for the collection of data from the sample small-scale industrial units. The filled-up schedules were checked and edited for better quality. The omissions and commissions in the schedule were rectified on the spot.

1.15 Data processing

After the completion of data collection, filled-up interview schedules were edited properly to make them ready for coding. The master table was prepared to incorporate all the information available in the interview schedule. The data were transcribed on transcription cards with the help of master table. The classification tables were prepared with the help of transcription cards for further analysis and interpretation. The processing of data was done through computers.

1.16 Limitations of the study

In making and presenting the study, some limitations could not be by passed on due to constraints in the general business environment and Government policies and also the constraints of time and resources. The major limitations are put forward here.

1. Secondary data with regard to the small-scale industries registration at India, Tamilnadu and even Kanyakumari are not accurately available as there are numerous unregistered units in the sector.
2. Most of the small-scale industrial units are not maintaining their accounts properly. In such cases, the data provided by them are not accurate and so the results cannot be generalized.

3. In some cases, the entrepreneurs were reluctant in providing exact data and this causes inaccurate results.

1.17 Chapter scheme

Chapter I introduces the subject and deals with the meaning, review of literature, statement of the problem, objectives of the study, sample design, collection of data, period of study, tools of analysis, operational definitions, limitations of the study and scheme of work.

Chapter II deals with the profile of small-scale industrial infrastructure and socio-economic setting in Kanyakumari District.

Chapter III presents an overview of small-scale industries in India in terms of small-scale industries and Five Year Plan, Tamilnadu and Small-Scale Industries contribution to exports and industrial cooperatives.

Chapter IV examines the performance of small-scale industrial units in Kanyakumari District.

Chapter V analyses the financial performance of small-scale industrial units in Kanyakumari District.

Chapter VI analyses the problems faced by small-scale industrial units in Kanyakumari District.

Chapter VII is the summation of major findings of the study along with suggestions based on the findings.
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