CHAPTER – I
INTRODUCTION AND DESIGN OF THE STUDY

1.1 INTRODUCTION

India is a developing country. It has abundant physical, natural and biological resources. It is a country with heterogeneous agro climatic regions. The country achieves a high annual growth rate of 8.5 per cent in Gross Domestic Product (GDP). Its economy is very strong with adequate foreign exchange reserves. Though the economy is not self-reliant, it has attained self-sufficiency in food grain production. Despite all these achievements, rapid increase in the rate of growth of population poses a serious threat to her economic development. Growing population is the main cause for unemployment. The government has to provide enough employment to uplift the standard of living of the people. But it is not possible to give wage employment to all by the government. Therefore, people must be encouraged to engage themselves in self-employment activities.

In the present context of mounting unemployment and squeeze in government jobs, entrepreneurship is gaining more significance. The importance of promoting and developing the first generation entrepreneurs is increasing day-by-day in all developing countries. It has been realized by planners in these countries that establishment of small and tiny enterprises, which have more employment potential, can tackle the acute problem of growing unemployment. Moreover, the development of entrepreneurship, especially among the rural / tribal population, is imperative for a country embarking on small industry development programmes. In particular, the spirit of entrepreneurship is to be developed among the educated youth. The
entrepreneurial spirit involves not only a desire to gain monetary benefit but also an admixture of a high need for achievement and all the motivation evident in a high achiever. Long-term involvement with a goal, which the entrepreneur sets for himself, creates the need to persist with the undertaking even in the face of difficulties and hardships.

Small-scale industries have been playing a pivotal role in India’s industrial and economic development. Many units have made significant contributions to the development of rural and backward areas. But the small-scale industries are confronted with problems such as paucity of finance, difficulties in procuring raw-material and in marketing and obsolete and out-dated technology. Lack of finance is one of the major obstacles in the development of small-scale units. Since most of the SSI units are either partnership firms or sole proprietary concerns, their internal resources are inadequate to meet their requirements. Despite the liberal credit provided by the institutional agencies to the SSI sector in recent years, the problem of finance still exists.

A vast majority of the small-scale industries suffer from inadequate supply of raw material at reasonable prices. The SSI units either use local raw material or imported raw material. Whether they use local raw material or imported raw material, the problem of scarcity exists. Scarcity of raw material affects the capacity utilization of small scale industries. In marketing their products, the small-scale units face many problems. The units generally do not have their own marketing

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organization. They do not have the resources and expertise to market their products effectively. Further, their products are often not standardized and of variable quality. They have to face stiff competition from large-scale industries. The government has taken some steps to market the products of the SSI units, but the arrangements are inadequate.

A significant feature of Indian economy since Independence is the rapid growth of small-scale industry sector. Industrialization is the foundation stone of the progress of any country in the world. Although there has been an unimpressive development of large-scale industries in about five decades of planned development, India still remains a country predominantly of cottage and small-scale industries. Small-scale industries can be divided into two types, namely, cottage industries and small-scale enterprises. In the case of cottage industries the process of production will be only through manual labour in which little or no machinery will be used, whereas in small enterprises machinery will be used. Small-scale and cottage industries of India have a decisive role to play in the economic development of the country. After agriculture and service sector, industry makes the largest contribution to the national income, which works out to about 25 per cent. Also, next to agriculture, industry has the greatest potential for creating jobs.

1.1.1 Entrepreneurship Development in India:

Entrepreneurial talent exists in every country. The origin and growth of entrepreneurship of any country can be traced from the economic history of that country. In India, the industrial activity began with handicrafts. Before any trade

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relation between India and Western countries, village community was the scene of economic activity. The caste-based division of work was in practice. Organized industrial activity was undertaken by artisans in selected cities like Banaras, Allahabad and so on. Allahabad dhotis and Banaras metal wares were popular all over the world. But during the last decade of the 18th century, Indian handicraft industry declined due to various causes. The major causes were (i) imposition of heavy duties on the imports of Indian goods in England. (ii) Changes in the tastes of Indians, developing crazines for England products and (iii) inability of Indian craftsman to follow the changing needs and tastes of the people.

The manufacturing entrepreneurship in India emerged with the advent of the East India Company. The company brought a major change in Indian economy through exports of raw materials to England for processing and then the import of finished goods to India. For this purpose the company started its first ship-building industry in Surat. At that time the Parsis were much influenced by the company’s commercial operations. As the Parsis had good rapport with the company, they started producing vessels for the company. The most important vessel producing industry was established by Lowjee-Nushirvan, a person belonging to Wadia family. Manjee Dhanjee entered into a contract with the company to build the first gun-powder mill in Mumbai for the company in 1677.

The Parsis were the founders of manufacturing enterprises in India. The first clothes textiles manufacturing unit was set up by a Parsi by name Davar in Mumbai in 1854. Later the Parsis invaded iron and steel industry. Jamshedjee Tata was the first Parsi entrepreneur who set up a steel industry in Jamshedpur in 1911.
1.1.2 Sources of Entrepreneurship in India:

After the First World War, the Indian Government agreed to provide protection to certain industries. These measures helped establishing factory manufacturing in India during the first four decades of the 20th century. The Swadeshi movement gave a much-needed stimulus to indigenous entrepreneurship. The emergence of managing agency system in 1936 also contributed to the growth of Indian entrepreneurship. As a result, the family entrepreneurship units like Tata, Birla, Dalmia and others grew to a larger size.

During the post-independence era, entrepreneurship began to grow faster. The Government of India in its first Industrial Policy Resolution 1948, and in the successive Industrial Policy Statements emphasized the need to encourage the tempo of industrialization by spreading entrepreneurship from the existing centers to other cities, towns and villages and to disseminate the entrepreneurship acumen concentrated in a few dominant communities to a larger number of industrial potential people of various social strata. The government gave priority to the development of small-scale industry to achieve these objectives.

It took several measures to develop and strengthen the small-scale industry during the First and Second Five Year Plans. Reservation of certain items and assured market for the products of small industry were some of the important measures taken during the period. The Third Five Year Plan laid emphasis on encouraging the spread of small-scale industry to rural and small towns by making available institutional finance, subsidies, sales rebate and sheltered market. The objective of the Fourth Five Year Plan is to improve the production techniques. The
Fifth Five Year Plan emphasized the promotion of entrepreneurship, provision of consultancy service and incentives to attract engineers to start industries. During the Sixth Five Year Plan period promotion of village and small-scale industries continued to be an important element in the national development strategy. The industrial Policy Statement, 1980, suggested certain steps such as establishment of wide entrepreneurial base by providing appropriate training and package of incentives.

The Industrial Policy, 1991, suggested various measures to strengthen the small-scale sector. Besides, the government proposed to continue the support to first generation entrepreneurs through training. Entrepreneur Development programmes were also proposed to be built into the curricula of vocational and other degree level courses. In the Eighth Plan, greater emphasis was laid on private initiative and entrepreneurship in industrial development. All these measures aimed at developing the spirit of entrepreneurship among engineers, technocrats and educated unemployed youth. In the Ninth Plan, the Government started setting up specialized branches of banks exclusively meant for providing credit to SSI and the Eleventh Plan particularly gives importance to the inflow of foreign direct investment.

But the growth of local entrepreneurs is generally inhibited by shortage of capital and managerial skills. Even now entrepreneurship remains confined to a small section of society in which capital and managerial skills are concentrated. In order to widen the base of entrepreneurship, the Government of India offers financial assistance and training facilities on priority basis to the less-privileged sections of society. The legal, institutional and organizational measures initiated by the
Government are designed to create a support system for developing entrepreneurship in all sections of society.

In order to accelerate the small industries development, Government at the Central and State levels have set up a number of development agencies/institutions such as District Industries Centres (DICs), Small Industries Service Institutes (SISIs) and Small Industries Development Organizations. All India Financial Institutions – IDBI, IFCI, ICICI – have promoted a number of Technical Consultancy Organizations (TCOs) to assist small entrepreneurs in different ways. The Small Industries Development Fund was set up by the IDIBI in 1986 in order to assist small-scale, village and cottage industries and tiny sector units in the rural areas. The Small Industries Development Bank of India (SIDBI) was established to assist small-scale units. In addition to these institutions there are agencies like National Science and Technology Entrepreneurship Board, Khadi and Village Industries Commission, Commercial Banks, EXIM Bank and Co-operative Banks which undertake promotional activities aiming at facilitating industrial development.3

Today’s vast competitive business world allows many new entrepreneurs enter the business. They face many problems even before they commence their business. Lack of technical efficiency, financial disablement, unstable political policies, and instability in the economy, inflation and deflation, and sudden changes in share-market are the some of the problems affecting entrepreneurship

3 C.B. Gupta and N.P. Srinivasan (2005), Entrepreneurial Development, Sultan Chand and Sons, Delhi, p.54.
development. A large number of institutions assist the entrepreneurs to overcome these problems and DIC, RUDSETI play a key role in entrepreneurship.

Entrepreneurs are not born. They are made but entrepreneurial development is a difficult task. Every entrepreneurial development is a difficult task. Every entrepreneur must pass through the three phases. The initial phase is concerned with the creation of awareness about entrepreneurial opportunities based on survey and research. Once awareness is created, prospective entrepreneurs would be motivated to come forward to take up some ventures or others. The second one is the development phase. At this phase, the motivated entrepreneurs are properly trained in the chosen field and in the management skills so that they could manage their ventures profitably and successfully. The third one is support phase. After the necessary training, adequate support should be provided to establish new enterprises. Support in the form of infrastructure facilities, financial assistance and counseling is given so that enterprises could be established without much obstacles. The government and some other private concerns have started institutional agencies to offer the financial and framing support to the entrepreneurs.

1.1.3 Need for the Study:

Small-Scale Industries (SSI) play a vital role in the industrialization of a developing country. This is because they provide immediate large-scale employment and has a comparatively higher labour/capital ratio; they need a shorter gestation period and relatively smaller markets to be economic; they need lower investments. They also offer a method of ensuring a more equitable distribution of national income and facilitate an effective mobilization of resources of capital and skill which might
otherwise remain unutilized; and they stimulate the growth of industrial entrepreneurship and promote a more diffused pattern of ownership and location.\textsuperscript{4}

Small-scale industries are generally characterized by heterogeneity and/or diversity of products and production methods, as well as of the purpose they serve. They produce constantly growing variety of raw materials for other industries and finished products for production. The diversity of activities is carried out even in the remote corners of the country, being at home, and relatively in decentralized pattern while the degree of capital intensively is low. The small-scale sector has got vast potentiality and capability and is working with underutilized capacity. They are utilizing local resources and skill and catering to the needs of various segments of the economy. The SSI sector, under the planned economy, was working under protective cover and in the process of liberalization after new Industrial Policy in 1991, the situation has changed otherwise. The process of liberalization and emerging World Trade Organization (WTO) regime, pushed the SSI sector into a volatile situation, without providing any level playing field, enabling them to compete in the open market, they threw open to competition. Despite so, the contribution of the sector to national economy remains significant. The contribution of SSI sector accounts for 95 per cent of industrial units, 39.52 per cent value added to manufacturing sector, 6.81 per cent of Gross Domestic Product (GDP) and 307.2 lakhs employment.\textsuperscript{5}

In Tamil Nadu, agriculture is uneconomic due to the vast landless labourers, uncertain monsoons, lack of irrigation facilities, low yield, possibility for raising only


\textsuperscript{5} www.smallindustryindia.com.
single crop throughout the year, crop failures, alkalinity and acidity of the soil and fragmented holdings. Due to lack of rainfall and low productivity in agriculture starting of small-scale industrial units is considered necessary to augment employment and income.

Madurai district is predominantly offering good scope for the establishment of SSI units in the fields of textiles, heavy engineering, fabrication, plastic, confectionery, automobile spare parts, readymade garments, bakery, dairy, horticulture, herbal medicines, cold storage, etc. The cluster based SSI units and non-resource base industries are also possible. There is also very good scope for establishing bakery and biscuit manufacturing units, sugar candy and confectionery, preservation of fruits and vegetables, manufacturing of dairy products, potato chips, roasted cashew nuts, tomato juice, sauce, fruit squashes, mushroom processing, extraction of perfumes, and appalam and papad manufacturing units.

In the district, private sector reputed organizations like TVS, Madura Coats, Fenner (India) Limited, etc. which are engaged in the production of a variety of goods like tyres and tubes, machineries, textiles, conveyor belts, etc. functioning and also provide a lot of employment opportunities to the people of this district. Thus, Madurai District is reputed for one or more line of products.

Capital, natural resources, infrastructure facility, and abundant and cheap labour are available for the industrial development in Madurai district. Considering the availability of such facilities in the area, one has to know about the growth and development of SSI sector in Madurai district. Considering the importance of SSI
units, the researcher has made an attempt to study the development of SSI units in Madurai District.

1.2 STATEMENT OF THE PROBLEM

Rapid increase in the rate of growth of population in India is a threat to economic development. It is one of the causes of unemployment. The Government has to provide necessary employment to increase the standard of living of the people. But it is not possible to give employment to all. Self-employment is the only alternative. People must venture into entrepreneurship to increase their income. Most of the people in India, especially those who are engaged in agriculture, are affected by drought and disguised unemployment. They must be encouraged to start business ventures to protect themselves from poverty.

Entrepreneurs are not born but they are made. Initiative, perseverance, orientation and many other qualities of entrepreneurs develop from early childhood and family life in modern societies. The educated youth develop a spirit of enterprise, self-confidence, creativity and innovation. But these inherent qualities are not translated into the spirit of entrepreneurship. The youth must be properly trained to take up the entrepreneurial venture. As entrepreneurs, they have unfavourable financial, technical and marketing guidance and assistance. They have limited scope to choose their business for want of finance. They face financial problem in their seed capital and also working capital. Without the availability of sufficient infrastructural facilities, they cannot do their business in a full-fledged manner. Due to lack of technical knowledge, they cannot adopt new technology as per the changing trend.
In India, the promotion of small-scale industries has continued to be an important element in the national development strategy, particularly because of their very favourable capital-output ratio and high employment intensity. In the post-independence period, the governments at the Centre and the State have established a number of specialized institutions and have offered special growth and performance-oriented concessions and facilities to cater to the varied needs of small scale units.

Though these promotional institutions assist in setting up small units, the SSI sector is facing heavy competition both in the domestic and international markets. In addition, the new industrial policy also hampered its sustained growth. The policy is oriented towards development of large-scale industries, in particular, multinationals based on technology as well as finance imported from advanced countries, while showing lip sympathy to small-scale sector. The competition is in terms of quality, reliability of product and timely delivery. These are the challenges before the SSI units. To meet their challenge, SSI sector is to be creative, innovative and make standard production and as such it is to acquire new and newer tools and update skills of human resource to make the sector remain constantly competitive.

The growth of SSI units is hampered by the obsolete and out-dated technology and equipment which they use. As a result, their cost of production is high and the quality is inferior when compared to the products of large-scale units. Lack of managerial expertise is another hurdle in the development of small-scale industries. Many SSI units are established by young entrepreneurs without previous experience. Consequently they borrow at high rates of interest and do not care for making economies in cost, particularly during the initial stages. Thus, inexperienced
management of SSI units leads to industrial sickness. This motivated the researcher
to make an attempt on the study of development of small scale industries in Madurai
District. Hence, this study is carried out for current research work.

1.3 REVIEW OF RELATED LITERATURE

At the early stage of the present exercise, a review of relevant literatures was
undertaken to understand what has already been done by expert committees and
researchers in the sphere of small-scale industries, development of SSI units, and the
various institutional arrangements for the promotion of small-scale industries. The
review was also made in various theses, project reports, books and articles which
enabled the researcher to identify certain lacunae in the previous studies and helped to
identify a new area for current research. A number of studies have been conducted
previously under various institutional arrangements and the role in the development
of SSI units. Some of the studies are:

N. Thanulingom (1982)⁶ in his study, “Small-scale Engineering Industry in
Coimbatore Region – A Study of Inter Relationship with Large-Scale Industry, stated
that inter-relations of small-scale industrial units with large-scale industrial units
received a wide range of benefits such as less workings capital, technical assistance,
economy in advertisement and assured marketing for products.

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⁶ N. Thanulingom (1982), Small Scale Engineering Industry in Coimbatore
Region-A Study of Inter-Relationship with Large-Scale Industry, Unpublished
R. Neelamegam (1983)\textsuperscript{7} in his study, “A Study of Institutional Financing to Small-Scale Industries – with Special Reference to Tamilnadu” analyzed the various types of financial assistance offered to the small-scale unit is Tamilnadu. He dealt with the role of the National Small Industries Corporation, the Industrial Development Bank of India, the small Industries Corporation, the State Financial Corporation, the Co-operative Banks and Commercial Banks in assisting the Small Scale Industries.

C. Southara Pandian (1989)\textsuperscript{8} in his study, “Growth of Entrepreneurship in Small-Scale Industry – An Empirical Study of Madurai Region”, analyzed the growth of entrepreneurship in different types of small-scale units, such as plough, leather, printing, salt and timber units in the five southern revenue districts of Tamilnadu.

A. Subbiah (1990)\textsuperscript{9} in his study, “Financing of Small-Scale Industries by State Bank of India – A Study with special reference to Sattur Branch stated that the delay in the sanctioning of loans and subsidy affected the small-scale units.

P.R. Kulkarni (1991)\textsuperscript{10}, General Manager in STDBI, In his article “Entrepreneurship Development: Role of the Government and Institutional Agencies’


\textsuperscript{9} A. Subbiah (1990), \textit{Financing of Small Scale Industries by State Bank of India – A Study with Special Reference to Sattur Branch}, M.Phil Dissertation submitted to Madurai Kamaraj University, Madurai.
highlighted the need for meaningful support to the trained entrepreneurs in the formulation and follow-up of their application for finance, infrastructural facilities such as land, water, power, factory shed, etc. and assistance in solving their other emerging managerial and organizational problems.

Ramamurthy, Kum.Mary Jeisia and T.Krishna Kumar (1990)\(^\text{11}\) in their study “Entrepreneurs Profile - Some Aspect” make an attempt to examine the impact of family background and educational qualifications of the entrepreneurs in the development of Entrepreneurship.

Umesh C. Patnaik (1990)\(^\text{12}\) in his study, “Contribution of DIC programme to SSI in India”, pointed out that after launching DIC programme, the growth rate of SSI sector was less, particularly in the case of export and employment generation.

A regional workshop (1992)\(^\text{13}\) on the development of entrepreneurship in India held at the Indian Institute of Management, Ahmadabad in 1992, strongly recommended the developing of micro enterprises among Indian men and women since the merit of such enterprise lies in entrepreneurs themselves running their own business within their capacity.


D.S. Leelavathi (1994)\textsuperscript{14} in her study, “Role of Industrial Estate in developing Small-scale Industries in Karnataka” had made an appraisal of various industrial estates functioning in Karnataka. The study highlighted the fact that in Karnataka there was lack of coordination among the agencies implementing the industrial estate programme. She was of the view that there was no standard criterion to evaluate the performance of the industrial estates. The study also pointed out that the rural industrial estates did not function effectively like the urban industrial estates.

Srivastava and Rajput (1995)\textsuperscript{15} in their article, “Sick SSI unit in India: Role of Commercial Banks” found out that though a number of steps were being taken by commercial banks to nourish SSI units, it was difficult to bring the sick SSI units to the right track. For example, the industry exposure to SSI as a percentage of total advances has ranged between 15 and 18 per cent. But the recovery percentage was lowered to about 35 per cent much below the minimum of 60 per cent for a viable recycling of funds.

R. Pon Murugan (1996)\textsuperscript{16} in his study, “Industrial Estates in Tirunelveli Region – An Empirical Study of their Impact on the Growth of SSI Units” analyzed the impact of industrial estates on the growth of SSI units and identified the important factors responsible for the growth of the SSI units located in industrial estates.

\begin{itemize}
  \item \textsuperscript{14} D.S. Leelavathi (1994), “Role of Industrial Estate in developing Small-scale Industries in Karnataka”, \textit{Southern Economist}, Vol. 33, No.15 and 16, December, pp.31-33.
\end{itemize}
Ram K. Vepa (1997), in his article “Small Can Be Beautiful Recommendations on Small Enterprises”, observed that the Abid Hussian Expert Committee on Small Enterprises has made significant recommendations towards making the sector more viable but without adequately outlining the administrative and financial support which would be required to implement them. In Vepa’s words, it looked doubtful whether the report would receive any serious consideration especially when its other major recommendations relating to the scrapping of the policy of reservation were politically sensitive.

K. Natarajan (1998) in his study, “A study of Utilization of Incentives by Small-Scale Industrial Units in Madurai District, analyzed the extent of utilization of incentives by small-scale industrial units in Madurai District. He highlighted the factors influencing the utilization of incentives by the small scale industrial units.

Adwait Mohanty and Jyotirmayee Kar (1999) in their article, “Credit Rationing and SSI units”, analyzed the impact of credit rationing undertaken by banks in financial SSI units. They observed that small scale units largely encountered the working capital rationing and SSI Units,


A.G. Rohira (1999)\(^{20}\) in his article "Small-Scale Financing – Problems Faced by Entrepreneurs" highlighted the fact that lack of co-ordination among various agencies was one of the most important reasons for sickness in industry. It is important that multi agency lending to SSI should be stopped and SIDBI should become a very big venture capital organization and SSI financing agency should function devoid of any intermediaries.

Kiran Sankar Chakraborty and Alok Kr. Pramanik (1999)\(^{21}\) in their article, “Sickness in Small-Scale Industries of North-Eastern Region, analyzed the causes for sickness of SSI units such as shortage of raw material, frequent changes in the policies, high transportation cost, inadequate modern marketing facilities and shortage of power supply in the North Eastern Region. They suggested remedial measures that should be taken to remove all the constraints for the development of SSI, such as location of industrial estates in places where industrial facilities were available and starting of units based on locally available natural resources.

Vikram Chadha (1999)\(^{22}\), in his article pointed out that the small industry, which predominates the Indian industrial scene, urgently needed the upgradation of its production technologies and methods in order to survive. The emerging competitive pressure of the problems encountered by the SSIs ranged from the


shortage of credit and finances, under-utilization of capacities, incompetitiveness in the input and product markets, to the inadequacy of infrastructural facilities like power and transport.

Cameron Alan, Clair Massey and Daniel Taweed (2000) in their study, results from the Global Entrepreneurship Monitor Project give new insights into the role entrepreneurs play in a country’s economic growth. It was found that the level of entrepreneurial activity was positively correlated with the recent gains in GDP for the 10 countries which fact was revealed in the study.

Dalitso Kayanula and Peter Quartey (2000) find that access to finance remains a dominant constraint to small scale enterprises in Ghana and Malawi. Other constraints faced by the sector include: lack of access to appropriate technology; existence of laws, regulations and rules that impede the development of the sector; weak institutional capacity and lack of management skills and training.

K.K. Chowdhury, E.V. Gijo and S. Hegde (2000) in their research identify that improving productivity, thus reducing costs, is necessary for the small scale vendors to survive in the highly competitive market.

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A.V. Khan and Zaguallah Shaikh (2001)\textsuperscript{26} in their article, "Financing of Small-Scale Industries in Maharashtra" observed that the financial and management base of SFCs might be suitably strengthened to enable them to provide better services to SSI sector. Banks and financial institutions could concentrate upon the cluster approach and set up specialized branches in such clusters of SSI concentrations.

R.M. Nagammai (2001)\textsuperscript{27} conducted a study to find out the input of TIIC and DICs on the growth of SSI units and to identify and analyze the new challenge for SSI sector.

S. Uma (2001)\textsuperscript{28} in her research titled “Problems and Prospects of Priority Lending By Commercial Banks – A Case Study of Small Scale Industries in Bangalore District” notes that improper planning, non-availability of adequate funds for working capital, diversion or misutilization of funds by the beneficiaries, non-availability or high priced raw materials, rejection of the products by customers, under-utilization of the installed capacity, delayed payment from customers, competition and other problems of marketing are the factors responsible for low profitability or loss.

\textsuperscript{26} A.V. Khan and Zaguallah Shaikh (2001), "Financing of Small-Scale Industries in Maharashtra", \textit{Southern Economist}, Vol. 40, No.1, May 1, p.28.

\textsuperscript{27} R.M. Nagammai (2001), \textit{Institutional Finance to SSI in Madurai District” Ph.D. Thesis submitted to Madurai Kamaraj University, Madurai.

\textsuperscript{28} S. Uma (2001), Problems and Prospects of Priority Sector Lending By Commercial Banks-A Case Study of Small Scale Industries in Bangalore District, October, p.327.
K. Sundar, K. Kumal Gandhi and G. Gangatharan (2002)\textsuperscript{29} in their article, “The Role of Small Industries Development Bank of India (SIDBI) in Financing SSI Units” attempted to analyze the role of SIDBI in providing financial assistance and observed that SIDBI's role was commendable both in terms of number of schemes sanctioned and the quantum of loans disbursed over a period of eight years. The bank was mainly financing SSI through refinance and bill financing schemes. The SIDBI, they pointed out, should widen its horizon of loan assistance to cater to the diverse credit requirements of SSI units. It should intensify its lending activities into the areas of equity assistance, project-related finance and support to institutions engaged in promoting SSIs.

R. Rajendran. (2003)\textsuperscript{30} in his study titled “The Role of Tamil Nadu Industrial Investment Corporation (TIIC) in the development of SSI in Tamil Nadu” discussed the various loan schemes provided by TIIC exclusively for SSI and the role played by TIIC in the development of SSI units in Tamil Nadu.

R. Srinivasan (2003)\textsuperscript{31} in his article, “Growth of Small-Scale Industries, explained the growth of small-scale industries in terms of number of units and


employment generation during VI, VII and VIII plan periods and during the period from 1977-78 to 1998-99.

Syed Vazith Hussain (2004)\(^{32}\) in his article "Performance of Small-Scale Industries in India and the Challenges Ahead" focussed the position and performance of small-scale industries in India in terms of growth of number of units, value of production, number of persons employed and value of export during the last decade. He had also analysed the impact of WTO in the development of SSI sector and offered a few recommendations to the government for the development of SSI sectors in India.

F.R. Alexander Pravin Durai (2005)\(^{33}\) has analyzed that two major factors, competition from power looms and mills and secondly increasing prices of yarn (raw materials) are the functional problems faced by the handloom cooperative societies.

M.V. Rahavalu (2005)\(^{34}\) in his article titled "Performance of Small-Scale Industrial Units in the Indian Economy" discussed the performance of SSI sector in the Indian Economy. Details about the growth of number of units of SSI in Karnataka State, its value of production, employment generated and value of exports from 1960-61 to 2003-04 were also provided. The study also examined the


performance of SSI units in the State of Karnataka and covered the problems and prospects of SSI units.

T.O. Asaolu, A.M. Oladoyin, P.O. Oladele (2005)\textsuperscript{35} find that the small scale sector in Nigeria is facing stiff opposition and competition from foreign companies. The sector also faces the problem of an unfavorable national policy climate as well as general unhealthy economic environment. On the basis of the identified problems, the study concludes that the small scale sector will continue to under-perform if the country’s macroeconomic environment remains unimproved. And the Government should see to the reduction in the prices of industrial tools and other materials so as to lessen the hardship encountered by the industrialists.

A. Amilan. (2006)\textsuperscript{36} in his article, "Economic Role of SSI in Indian Economy: An Analysis" brought out the significance of SSI sector in the country's economic contribution and also discussed the policy initiatives taken by the government to provide timely adequate credit for the SSI units, for accessing technological advancements and marketing assistance. He also analysed the schemes of RBI for the development of SSI sector in India.


R. Suresh (2006)\textsuperscript{37} in an article "Small-Scale Enterprises, Growth Engine of Economy – A Glance" stated the industry-wise position of SSI in Tamil Nadu during 2002-03 and compared the industry-wise employment generation and production level in 2000-01 and 2001-02. He also presented the challenges faced and opportunities available to the SSI sector in Tamil Nadu.

Srikumar and Jayalakshmi (2006)\textsuperscript{38} in their study show that the reforms in the finance sector have snatched the benefits of lower interest rates, credit guarantee schemes, and priority sector lending.

K. Murali Selvam (2007)\textsuperscript{39} in an article titled "Small-Scale Industries for large Employment" has analyzed the performance of SSI sector in the overall industrial production, employment and value of export and mainly focussed the industry group-wise, unit-wise, location-wise and state-wise employment distribution by SSI sector in India. He also identified the problems and prospects of SSI sector.

N. Uma Rani (2007)\textsuperscript{40} in her article, "Export Potential of SSIs in India: A Study" had examined the performance of SSIs in the Indian economy and level of exports of SSIs over the period of 12 years from 1994-95 to 2005-06 and had suggested measures to exploit SSI in the best interest of India.


Onugu Charles Uchenna (2007)\textsuperscript{41} has briefed about the challenges of power problems, high raw material cost, loan, logistics, procurement and maintenance of equipments, heavy competition etc.

Valasamma Antony (2007)\textsuperscript{42} in her article "Small-Scale Sector at Crossroads: An Overview" reviewed the role of SSI sector in the Indian economy. She had discussed the problems of SSI sector relating to financial, industrial sickness and incipient sickness and also provided a few important various suggestions to the government in removing the sickness among SSI units.

Basem M. Lozi (2008)\textsuperscript{43} has identified in his survey that Marketing is one of the major problem areas of the small scale industries and it has been ranked as the second most important reason for the closure of small scale businesses.

Biobele Richards Briggs (2009)\textsuperscript{44} surveyed Ugandan indigenous traders in Africa and have found that they are affected by factors such as lack of dependable business skills, lack of capital, low market patronage, competition and inadequate government support.


Hitendra Bargal (2009)\textsuperscript{45} has accounted that the annual average growth rate of different parameters of SSIs has declined in the period of the nineties vis-à-vis the pre-reform years. The productivity per employee and also employment in SME have also declined. There is an absence of any lead-lag casual relationship between exports and production in the small-scale sector and the GDP of Indian economy.

K. Lavanya Latha and B.E.V.V.N. Murthy (2009)\textsuperscript{46} have found in their study of Nellore district that the high price of raw materials, lack of marketing information and marketing of products are the major problems faced by the entrepreneurs, followed by competition from small industries and absenteeism of labour. The majority (about 90.3 percent) of the entrepreneurs did not want to make any complaint to government agencies.

Abdul-Azeez Ibraheem Adegoke (2010)\textsuperscript{47} states that gender, age and educational qualification has a significant influence on the performance of the selected small-scale enterprises in the study area in Nigeria. The paper suggests an integrated approach to the development of individual entrepreneurial capacity and promotion of sustainable small-scale enterprises.

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Austin Okachi Oparanma (2010)\textsuperscript{48} in his study, according to the responses of 143 proprietors and officials of family businesses in Rivers State, Nigeria, Opines that the fundamental problems of family business identified by this study are: managerial, financial, personnel, marketing, and production. And it is concluded that even though adequate capital and strong family relationships are very important variables for the survival of the business, they do not guarantee success”.

Arema and Adeyemi (2011)\textsuperscript{49} have concluded in their research, among the Nigerians that Finance is the most important and cogent key of any enterprises. Small and medium scale enterprises must be financially supported so that they can take off expand and be able to meet the needs of the Nigerians. The study also recommended the need for supporting and strengthening SMEs’ productive capacities and market competitiveness of Small and Medium Scale Enterprises in the country.

K. Vetrivel and S. Iyyampillai (2011)\textsuperscript{50} have concluded that the overall policy and physical environment have been utilized by the entrepreneurs to maximize the benefits. However, it is noticed that due to various reasons some units could flourish while others could not. Hence, it is ultimately concluded from the analysis that, in


spite of all the external factors, the individual factors do play an important role in the expansion of the industrial activities.

HafizUllah, Zulqrmain, Shekh, Murad and Muhammad (2012)\textsuperscript{51} in their research related to a survey of 30 women entrepreneurs, gave a picture that they should have easy access to financial capital, enough information about their business, skills, marketing knowledge. The suggestions were, time constraint while taking the loan should be reduced, so that an applicant can get loan at the right time for utilization without too much complicated procedure.

Jahangir, Abdul, Farooque and Munsura (2012)\textsuperscript{52} have focused about the growth constraints of entrepreneurs of Bangladesh and it was recommended that government assistance have to be improved in terms of necessary infrastructure and to have qualified personnel to implement and monitor policies effectively.

Shafeek Sha (2012)\textsuperscript{53} in his study stated that the overriding reason for failure is the lack of management skills to manage the businesses. The business environment also contributes to the success or failure of the SMEs but this study has focused on


the factors controlled by the owner manager, that is, the management skills. Research has also indicated that the age of the firms has a significant role to play in its continued existence.

The review of the above reports, theses and articles reveals that these studies revolve around various institutions and their role in the development of SSI units in various regions. No researcher had taken up any such study on the development of SSI units at the regional level. Hence the researcher has undertaken this study to bridge the gap in the previous studies.

1.4 SCOPE OF THE STUDY

Madurai, the very heart of Tamil Nadu, is a city of ancient glory, its history, rich cultural heritage and colourful legends all spurring a people proud of their aeons-old civilization. The second largest city in the State, Madurai district has a total population of 25,62,279 and an area of about 6,565 sq.km. as per the Census of India 2001. Madurai district is surrounded by Dindigul district in North, by Virudhunagar district in South, by Sivagangai district in East and by Theni district in West. The district is divided into 13 blocks, viz., Madurai West, Melur, Thirumangalam, Thirupparankundram, Alanganallur, Chellampatti, Kallikudi, Madurai East, T.Kallupatti, Usilampatti, Vadipatti, Sedapatti, and Kottampatti. There are three industrial estates at K.Pudur, Uranganpatti and Kappalur are eligible for the incentives announced for the industrially-backward blocks. In Madurai, a lot of small-scale industries are functioning.

Hence, an attempt is made to study the development of small-scale industries in Madurai District and analyses the factors influencing their development. This study also covers the problems of SSI units in Madurai District and the opinions of entrepreneurs on the financial assisting SSI units.

1.5 OBJECTIVES OF THE STUDY

The main objectives of the study are:

1. To study the overall views of small scale industries.
2. To analyze the growth of small scale industrial units in India and Tamil Nadu in general and Madurai District in particular.
3. To analyze the profile of entrepreneurs of small scale industrial units in Madurai District.
4. To test the factors influencing the development of SSI units in Madurai District.
5. To measure the opinion of entrepreneurs towards financial assistance provided to the SSI units by the financial institutions.
6. To offer suggestions for the further development of small scale industrial units in Madurai District.

1.6 OPERATIONAL DEFINITION OF CONCEPTS

1.6.1 District

In this study ‘district’ refers to Madurai District.

1.6.2 State

In this study the term ‘state’ refers to the state of Tamil Nadu.
1.6.3 Entrepreneur

The term ‘entrepreneur’ stands for the owner of small scale industrial units of Madurai district, who takes the ultimate responsibility for the management of the concerned small-scale unit.

1.6.4 Growth Index

The Growth index measures the growth of fixed assets, current assets, capacity utilization, number of products produced and number of persons employed. It is constructed by giving a value of 100 points for each component at the beginning of the study period. It is compared with the value at the end of the study.

1.6.5 Year

Year means the period between April 1 and March 31 of the following year.

1.6.6 Unit

Unit means small scale industrial unit.

1.6.7 Seed Capital

“Seed Capital” refers to the initial capital invested by the entrepreneur at the time of commencement of their industrial units.

1.6.8 Operating Expenses

“Operating expenses” refers to the average operating expenditure for the study period.

1.6.9 Long-term Liabilities

“Long-term liabilities” refers to the borrowings which are to be repaid after five years.
1.6.10 Ancillary Unit

An ancillary unit is one in which the investment in fixed assets does not exceed Rupees 1 crore.

1.6.11 Tiny Unit

A tiny unit is one where investment in fixed assets in plant and machinery does not exceed Rupees 25 lakhs.

1.6.12 Installed Capacity

“Installed Capacity” refers to the maximum level of production of the item that can be attained in a year on a single shift basis, (or two/three shifts, if the process is a continuous one, depending on the technologies involved) with the available machinery and equipment and/or labour.

1.6.13 Capacity Utilization

“Capacity Utilization” is the part of capacity which is utilized by the unit during the year of production. Utilization is expressed in terms of percentage.

1.6.14 Wood Product Unit

Wood product unit means small scale unit engaged in the production of veneers, splints, wooden chair, wooden table, windows, doors and the like.

1.6.15 Chemical Product Unit

“Chemical product unit” means small scale unit engaged in the production of safety matches, fireworks, printing ink, insulation tapes, agarpathies, camphor tablets, soaps, soap oils, polythene bags and the like.
1.6.16 Paper and Printing Units

“Paper and printing units” mean small scale units engaged in the production of paper board, paper bags, office files, calendars, diaries, gem clips, printed labels, posters and the like.

1.6.17 Hosiery Garments Unit

Hosiery garments unit means small scale unit engaged in the production of ready-made garments, terry towels, lungies, tailored hosiery garments and the like.

1.6.18. Food Product Unit

Food product unit means small scale unit engaged in the production of food items for hotels, bakeries, rice mill, flour mill, wet grinding unit producing bread, biscuit and egg unit producing eggs.

1.6.19 Cotton Textile Unit

“Cotton textile unit” means small scale unit engaged in cotton ginning and cotton spinning, willowing of waste cotton, dyeing of yarn, winding, warping and the like, and in the production of surgical cotton,

1.6.20 Rubber and Plastic Product Units

“Rubber and plastic product units” mean small scale units engaged in the production of plastic containers, bangles and the like.

1.6.21 Metal Product Unit

“Metal product unit” means small scale unit engaged in the production of fountain pens and nibs, iron, steel, lathe, welding instruments, paper pins, tin containers, gates and grills, automobile spare parts (both for two wheelers and four wheelers) and the like.
1.7 HYPOTHESES

The following null hypotheses were framed for analyzing the opinion of entrepreneurs on the financial institutions providing loans to the SSIs in Madurai District. The results are presented in Chapter-V of this thesis.

1) There is no significant difference between the gender of the respondents and the opinion on the financial institutions providing assistance to the SSI units.

2) There is no significant difference between the age of the respondents and the opinion on the financial institutions providing assistance to the SSI units.

3) There is no significant difference between the marital status of the respondents and the opinion on the financial institutions providing assistance to the SSI units.

4) There is no significant difference between the educational qualifications of the respondents and the opinion on the financial institutions providing assistance to the SSI units.

5) There is no significant difference between the previous occupations of the respondents of the respondents and the opinion on the financial institutions providing assistance to the SSI units.

6) There is no significant difference among the opinion levels of respondents who had SSI units in rural, semi-urban or urban areas.

7) There is no significant difference among the opinion levels of respondents who had SSIs in different types of organizations.

8) There is no significant difference between the opinion levels of respondents of manufacturing units and service units.
9) There is no significant difference among the opinion levels of respondents with varying years of existence of their SSIs.

1.8. METHODOLOGY

The present study is based on both primary and secondary data. Primary data have been collected by conducting a survey among 200 sample entrepreneurs of small-scale industrial units in Madurai District.

Secondary data have been collected from books, journals, newspapers, periodicals, reports and unpublished Ph.D. theses.

1.9 PERIOD OF STUDY

This study covers a period of 11 years from 2001-02 to 2011-12.

1.10 SAMPLING DESIGN

In order to study the problems of small scale industrial units in Madurai District and also analyze the opinion of entrepreneurs in getting financial assistance from commercial banks, a survey was conducted among 200 sample units by using a structured interview schedule. Random sampling technique was used in selecting sample units by using lottery method. The type of SSI units selected for sample is given in Table 1.1.
Table 1.1

Particulars of Sample SSI Units

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Type of SSI Unit</th>
<th>No. of Sample Units</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Wood product unit</td>
<td>25</td>
<td>12.5</td>
</tr>
<tr>
<td>2.</td>
<td>Chemical product unit</td>
<td>25</td>
<td>12.5</td>
</tr>
<tr>
<td>3.</td>
<td>Paper and printing unit</td>
<td>25</td>
<td>12.5</td>
</tr>
<tr>
<td>4.</td>
<td>Hosiery garments unit</td>
<td>25</td>
<td>12.5</td>
</tr>
<tr>
<td>5.</td>
<td>Food product unit</td>
<td>25</td>
<td>12.5</td>
</tr>
<tr>
<td>6.</td>
<td>Cotton textiles unit</td>
<td>25</td>
<td>12.5</td>
</tr>
<tr>
<td>7.</td>
<td>Rubber and plastic products unit</td>
<td>25</td>
<td>12.5</td>
</tr>
<tr>
<td>8.</td>
<td>Metal product unit</td>
<td>25</td>
<td>12.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>200</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

1.11 TOOLS FOR COLLECTION OF DATA AND PRE-TEST

For the purpose of the survey of the sample SSI units, a pre-test was conducted among 20 entrepreneurs to analyze the effectiveness of the interview schedule. It was modified on the basis of the pre-test and the data were collected from 200 sample SSI units.

1.12 FIELD WORK AND DATA COLLECTION

Field work for the study was carried out by the researcher herself. It was conducted during the period from January to March 2013.
1.13 DATA PROCESSING

After the completion of the survey, the filled-in interview schedule was edited properly to make it ready for coding. The respondents’ responses to each of the questions in the schedule were first tabulated in the master table. The qualitative data were quantified and tabulated to draw meaningful inferences. Thereafter, appropriate tables were prepared keeping in view the specific objectives of the study for analyzing the data with the application of the statistical tools.

1.14 FRAMEWORK OF ANALYSIS

Statistical tools like Percentage Analysis, Annual Growth Rate, Compound Growth Rate, Trend Analysis, and Chi-square Test have been used for data analysis.

1.15 CHAPTER SCHEME

This research report has seven chapters.

The first chapter presents the introduction and design of the study. It includes statement of the problem, review of literature, scope and objectives of the study, operational definition of concepts, hypotheses, methodology, period of study, sampling design, tools for collection of data and pre-test, field work and data collection, data processing, framework of analysis, and the chapter scheme.

The second chapter gives an view of small scale industries. It discusses about the status of small-scale enterprises, items reserved for exclusive manufacture in small-scale sector, registration, industrial policy, and the role of small-scale and tiny industries in Indian economy. It also gives details about small scale sector in the five
year plan periods, small scale industries in Tamil Nadu and Madurai, and institutions in aid of entrepreneurship development.

The third chapter analyzes the growth of the SSI units in India and Tamil Nadu in general and Madurai District in particular. Compound growth rate as well as year-wise growth rate has been applied for this purpose.

The fourth chapter examines the profile of entrepreneurs of Small Scale Industrial Units in Madurai District.

Chapter fifth measures the opinions of entrepreneurs on the financial institutions assisting small scale industries units in Madurai District. It has been analyzed with the help of five-point scale.

The sixth chapter presents a summary of the findings and offers suggestions.