CHAPTER 1

INTRODUCTION
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Small scale industries, as a strategy of development, play a significant role in the transformation of the traditional economies into industrial economies. They reflect production by masses rather than by mass production. In a poor country like India they create large employment opportunities and thereby high growth. The relevance of small enterprises has gone up in the context of ‘flexible specialisation’\(^1\) and ‘cluster’ based growth\(^2\), particularly in developing countries like India. Kerala is not an exception to this.

Kerala with its peculiar geographic and demographic features has got all the push and pull factors required for the setting up of small enterprises. High proportion of working age population (60% in 2001), exposure of migrant labour to other parts, high literacy rate, familiarisation with new and modern forms of organisation and management of work and business, etc. have led to proliferation of small enterprises in Kerala. The sad and disquietly feature is that performance of the industrial sector in large and small scale sector in particular is far below the potential.

\(^{1}\)Flexible specialization is a Competitive strategy where a firm equips itself with multi-use equipment, multi-skilled employees, and innovative executives, in order to adjust very quickly to a fast changing market place and business environment.

\(^{2}\) It focuses on the clustering of firms and the competitive advantage, which they derive from local external economies and joint action, captured in the concept of collective efficiency.
Not only the productivity of the SSI sector is very low but also the sickness and failure rates are very high. It is alarming to notice that the registration rate as well as their deregistration rate are very high in the State economy.

1.1 Modern Small Enterprises: Nature and Definition

Kerala had five per cent share of total number of small enterprises in the country. Development Digest (2005) noticed that Kerala accounted for 11.11 per cent of the total number of registered SSI units in India. But 1. Kerala’s SSI sector employs 5.53 per cent of the total employment of 7.77 lakh in SSI sector in India.

2. The national average gross output was 1.93 lakh while it was only 1.86 lakh in Kerala. Kerala’s share of value of production was only 2.66 per cent of the total value of production by SSI’s in India. Of the total value added by the SSIs in India the share of Kerala was only 0.43 per cent. 3. The average fixed investment was only 0.7 lakh and their total investment was only four per cent of the total national fixed investment of SSIs. 4. Another feature is that thirty four per cent of the SSIs in Kerala remained closed while the national average was only twenty six per cent. The third All India Censes of Small Scale Industries (2002) found that Kerala had the maximum number of sick units in the registered SSI sector. The problem of SSIs will be clear when one understands the exact definition of SSI.

A number of criteria are used to define small enterprises such as employment, turn over, asset, managerial process, etc. The definition of a small enterprise varies enormously across industry sectors and countries. Drastic changes have occurred in the definition over the period since the first Industrial Policy Resolution of 1947. The Industries Act 1950 considered units employing less than 50 workers with power and
less than 100 workers without power as small industries. The Bolton Report (1971) described a small firm as follows: In economic terms, a small firm is one that has a relatively small share of its market. Such firms are unable to influence the prices prevailing in the market. Its owners manage it in a personalised way and not through the medium of formalised management structure. The Industrial Policy of 1991-2000 defined small scale and ancillary undertakings as those having investment up to Rs.1 crore. Based on latest policy prescription, viz. Micro, Small and Medium Enterprises Development Act 2006 defined small enterprises in the manufacturing sector having fixed investment in plant and machinery between Rs.25 lakh and Rs.5 crore. Units below Rs. 25 lakh investment in plant and machinery are termed as micro enterprises and units above Rs. 5 crore are medium enterprises (MSMEs Act, 2006).

1.2 Survey of Relevant studies

There are a large number of studies about the small enterprises in India as well as in Kerala. They pertain to many issues in the small-scale sector. Most of the scholars are of the view that the performance of the SSI sector in India and particularly in Kerala is far below satisfactory. An overview of national scenario can be taken up first.

1.2.1 National Scenario

The study conducted by the Development Commissioner, Directorate of Industries (SSI) Government of India (1976) provide basic information about the range of products produced by the small scale industrial unit, the dispersal of SSI units in the country, their output, employment opportunities provided by them, their export and economic indicators of the sector’s performance. It is often, highlighted
that the Government policies very often produced some negative effects in terms of efficiency and productivity. However, India’s SSI sector is making a significant contribution towards creating a wider industrial base, employment generation, industrial production and attracting foreign exchange earnings (Bodla, 2004). Bodla also observed that the SSI sector is in no way inferior to large-scale sector in utilisation of resources.

The review of some studies made it clear that finance, marketing and technology are the three major problems of this sector. The Government policies could not reduce the problems relating to finance, marketing and technology. Khandelwal (1985) noticed that the inefficient management of the working capital by the SSI’s is the major reason for poor performance, sickness and failure. He suggested the adoption of systematic forecasting, planning and control techniques for the better management of working capital. Gangwal (1990) disclosed that the most common reason for sickness in small firms is non-availability of infrastructure facilities, finance and professional management. The study suggests that the financial institutions should cut down the procedural delay and that the small-scale industrial units may adopt management information system.

Banzal (1992) analysed the financial problems and industrial sickness in small-scale industries. The study identifies the application of certain ratios to determine the feasibility of a project at the time of the inception of a project and as a measure of checking the health of a unit. Deb (1993) held that though marketing problems and financial problems are the apparent causes, the real causes of sickness are high cost of production, lack of aptitude on the part the entrepreneurs, unhealthy
competition arising out of defective registration policy of the District Industries Centre, and the malpractices of some of the entrepreneurs.

Paraschar (2004) analysed the problems faced by the SSIs and finds that the shortage of capital emerges as the most serious problem. Marketing and non-availability of raw materials, power cuts, and non-availability of labour are other problems. Competition from imports is a lately emerging and quite serious one in the contemporary Indian scenario. The study emphasizes the role of Government to enhance competitive strength of the SSI sector with improved technology. Selvaraj (2005) claimed that the real causes of sickness are not identified in time and remedial measures are not identified promptly. The causes for failure of SSI units include inadequate and delayed institutional finance, inefficient and non-professional management, shortages of inputs including power, labour unrest, technology obsolescence, market failure and competition.

Mukherjee (2000) identified low capital base, difficulties in accessing technology, credit constraints, low access to business services, constraints in the quality of human resources, low awareness, and low lobbying capacity as major vulnerabilities of SSIs. Sahoo (2004) highlighted the major problems faced by the SSI sector as related to credit, infrastructure, technology, skill development, and marketing. Impact of WTO agreements, removal of QRs, dumping of goods, power related inadequacies, etc., are other major problems faced by the SSI sector.

Vedachalam (1991) found that unproductive use or wastage of funds by the entrepreneurs causes mortality to the units. The study suggests that a periodical review of the borrower’s account and a close watch on the debt equities position of
the unit by the funding agency would save the unit from becoming sick. Panda (1986) examines the working capital problems of small manufacturing companies. The study highlights the problems of adequacy, choice, sources and problems of raising working capital. Joshi (1987) points out that to prevent mortality among small scale industrial units, it is essential that the entrepreneurs should be in constant touch with financial institutions and that simultaneously the financial institutions should have an effective system to monitor the health of the units.

Pareck (1978) highlights the problems of the small scale industries, with particular reference to finance. The study analyses the role of various agencies, particularly the financial institutions, in meeting the financial needs of the small scale industrial units and pin points their attitude of indifference in catering the needs of small units as well as the problems faced by the entrepreneurs.

The State Bank of India’s study team (1975) reveals that most of the SSI units are prone to sickness owing to limited financial resources, weak equity base, lack of planned and organised approach and ignorance of the small entrepreneurs regarding the approach which would safe guard them from difficulties. Training and educating the borrowers, bringing attitudinal changes in bank officials, providing technical support to field staff of the banks, improved appraisal, follow–up procedures etc. are some of the suggestions made. Reserve Bank of India (1975) study group observes that timely examination with the borrower will not only save the units from becoming sick but also avoid the losses of the banks. R.B.I (1978) constituted a study group to examine the issue of nursing sick units, in particular financing cash losses and has observed that rehabilitation of sick units require close coordination and concerted action by banks and term–lending institutions. The areas
for which co-ordinated action is required include identifying of the causes of sickness, determining of potential viability of units, evolving nursing programmes and monitoring.

R.B.I (1984) constituted a study team under the chairmanship of Tiwari to examine the legal and other difficulties faced by the banks and financial institutions in the rehabilitation of sick industrial undertakings. The team suggested a comprehensive special legislation to deal with the problems of the sick units and a quasi-judicial body, called the Board of Industrial Revival, to be set up under special legislation to deal with matters relating to the rehabilitation of sick industrial units. R.B.I (1985) constituted another study team under the Chairmanship of Ojah to examine the various issues relating to the setting up of a soft loan assistance fund for rehabilitating sick small scale industrial units. The study revealed that the provisions of the existing schemes do not adequately deal with the problems of sick units and the amount of assistance made available to the sick small scale industrial units through the various schemes is very negligible. The study team recommended for the setting up of a special soft loan assistance fund, with sufficient resources at its disposal and with the capacity to absorb possible losses, in order to help the credit institutions in their effort to nurse sick small scale units in a more meaningful manner.

Ministry of Industry, Government of India (1985) made an all India survey to assess the incidence of sickness and to analyse the causes of sickness in the small scale sector. The study finds that the basic cause of sickness is the imbalance in the investment and financial structure of the units. Pathak (1975) reveals that the more important problem areas of SSI’s are raw materials, finance and marketing, followed
by the central and state Government policies, labour and the competition faced by the small entrepreneurs. The study emphasises systematic project planning at the inception stage to ensure better results and reduce the time lag between the inception and the operational periods.

Eresi (1989) found that the policies, procedures and practices of small scale units in managing their finance are inefficient. The study suggests the organisation of management and entrepreneurial development programmes by District Industries’ Centers for preventing sickness. Reddy (1991) revealed that many causes such as competition, conflict among partners, non-availability of qualified labour, low quality of products, shortage of finance and management have caused sickness in small and tiny units.

Low productivity, due to the difficulty of technology upgradation was cited by many as major reasons for poor performance of small enterprises. Majumdar (2004) also highlighted low productivity of the SSI sector. He also reminded that improving labour productivity of SSIs in UDCs through technological upgradation is not an easy task as it involves heavy investment. A combination of better technology and wider diffusion is thus recommended by him. Effectiveness of labour for SSI units depends more on training, experience and familiarity of workers, rather than on the range of tools that complement them. He gave more importance to technology diffusion for augmenting productivity in the SSIs. Mukherjee (2004) noticed a very low productivity in small manufacturing enterprises. He identified that factors like technology, access to resources and inputs, general macro economic policies, etc. emerge as important determinants of productivity and recommended proper policies for augmenting productivity levels.
Panchakshariah (1990) analysed the problem of sickness in the small scale industries from a sociological angle. He reveals that the mere possession of the requisite entrepreneurial qualities by the entrepreneurs alone may not bring success to their units. The supportive role of the environmental entities is also essential for success. Singh (1985) examined the socio-economic characteristics of the entrepreneurs and their views on the growth and expansion of their own units. While discussing the poor performance of SSIs in India he emphasized on the pattern of assistance provided by the Government through various agencies and the problems encountered by the entrepreneur.

Tewari et al, (1991) upheld that the success of a small business depends more on the competence of the entrepreneur himself than on the project. The study suggests that the funding agencies should devise screening process to ensure that only persons with entrepreneurial qualities and right projects are approved with financial assistance. Mishra (1991) highlighted the organisational and psychological factors for the sickness of small scale industries. He analyses the role of entrepreneur’s personality dynamics in the success or failure of small scale enterprises. Dave (1987) reveals that management failure is the major reason for sickness and that there is a close relationship between the quality of management and health of the industrial unit. Rao (1988) held that the personal problems of small scale industries, both from the labour and that of management are the main reason for sickness.

Awasthi (2004) noticed a restructuring process where in shifting from micro to relatively larger size classes within the SSI’s, from rural to urban locations and from non-cluster to cluster units. It also enclosed a further consolidation of this
restructuring process, which is associated with better productivity and growth. Patra (1993) in his attempt to identify the various problems relating to the different aspects of the promotion and management of the SSI found that in spite of the incentives and support provided to them in periods of planned development, the progress is not satisfactory. This is mainly because the majority of these incentives were not benefited by small enterprises. Vepa (1997) found that the Government agencies and institutions for the promotion of SSI sector do not function well and radical change is needed in their organisation structure and operating procedures to make them more accountable. He also recognised that the future of SSIs depend on continuous technology upgradation ability. He opines that the SMEs should be made accountable for the benefits and concessions.

The issue of competitiveness has been a debate for many in the context of poor technology. Nag (2000) observed that the insulation of industry from the dynamics of competitive growth has resulted in poor technology and setting up of some unviable units. In order to meet global competition, Indian small industries have to overhaul their entire strategy. Naik (2002) underlined that there is an urgent need to refashion the policies governing the sector to improve its competitive strength and long-term outlook. For this purpose the following areas of reforms are put forth: first, clubbing together SMEs and raising the investment limits for technological upgradation and to attract F D I ; second, doing away with the reservation policy ; third, promoting clusters for provision of infra structure and fourth, ensuring adequate institutional credits to the SSI sector. Bhavani (2002) focused on the ongoing changes in the business environment and their implications for small scale units. Bhavani felt the need to improve the competitive strength and
commercial viability of small scale units in the changing context to improve their performance.

The effect of economic reforms has been a concern of modern researchers and hence a large number of studies have been undertaken in this respect. Vasudeva (2001) commends that the removal of Quantitative Restrictions may adversely affect some highly protected SSI sectors. Subsidies, excise duty exemption, etc. together with better technology and competitive ability will help SSI to overcome the competition from outside. Balasubrahmanya (2003) analysed that the earlier programmes of the Government conceived mainly to protect small industry from competition from better organised large scale units by providing subsidies and preferential excise duties. The industrial policy introduced in 1991 eliminated all entry barriers and tends to promote competitiveness of the sector. Economic liberalisation and the resultant competitive environment have not been affecting small industry performance adversely. But, the functions and roles of the institutions involved in the implementation of strategies are not well defined. They have overlapping functions and there is the absence of central coordination. There is an urgent need to develop a centralised R & D facility for small industry since individual small industry unit will not be in a position to incur heavy investment for Research and Development.

Nagaraj (2004) commends that the unnecessary subsidies, tax concessions, credit facilities, etc. neglect the SSI sector’s productivity aspect. The profit of small scale units are more related to what is now a days called ‘rent seeking’ than to productivity. This rent seeking provides a perverse incentive to accumulate capital by moving horizontally to build a number of small units, rather than moving vertically
up to become a larger unit. Singh *et al*, (2004) found that the protective and promotional measures by the Government helped the growth of small enterprises in the country. However, they did not succeed in raising their productivity and competitive strength. Based on a survey of enterprises in U.P he found that though in term of employment generation micro enterprises maintain their superiority, income levels in these enterprises are rather low. The facilities provided in the work place are also far from satisfactory. The small firms need to improve their productivity levels.

Papola (2004) reported that the growth of the SSI sector has experienced a set back during the period of economic reforms, but at the same time the sector seems to have shown greater resilience than the large scale in overcoming the challenges of Globalisation. A major reason for the rather indifferent performance of the SSI enterprises lies in their limited access to the larger markets. In order that they may experience dynamic growth by taking advantage of the growing markets, it would be necessary for them to establish linkages with larger marketing and commercial entities. Such an arrangement is expected not only to ensure marketing of SSI products, but also induce productivity increases through technological and product upgradation.

**1.2.2 Kerala Scenario**

The Development Commissioner (Small Scale Industries) Government of India (1976; 1992) conducted a survey to assess the present level of contributions made by registered small scale units in terms of employment, investment and production. By 1987-88 the average size of Kerala units in terms of all the relevant indicators (except employment) was below the all-India level. Capacity utilization,
labour and capital productivity, investment size, etc. of SSIs in Kerala were below the national level. The performances of the small enterprises in Kerala as compared to national level in terms of investment, productivity, employment generation, capacity utilization, etc are poor. Sickness and closure rate are also higher in the state as compared to the national level.

Subrahmanian and Pillai (1994) while analyzing the findings of Second all India census of SSIs concluded that the performance of SSIs in Kerala at the national level as well as compared to it’s neighbouring states were very poor. In regard to capital productivity and output–capital ratio Kerala was nearly half the all-India in 1988. The picture was equally dismal with regard to labour productivity: an employee in Kerala did not even account for one half of the value being generated by his counterpart at all–India level. Kerala units are organised more as proprietary units (82%) located mostly in rural areas and engaged in manufacturing (60%) as against 50 per cent in all-India. The average level of capacity utilization was 42.62 per cent in Kerala as against 50.6 per cent all India. The present study found that the average capacity utilization as 49 per cent among modern small enterprises in Kerala. The investment of fixed capital of SSIs in Kerala is below the National level. Sickness and closure rates are high in the state. Poor performance record of Kerala cannot be explained away in terms of some regional factors per se but has to be seen in the light of the weakness of size-structure, industry mix and other structural factors.

There are various hypothesis developed to explain the poor performance of the industrial sector including small enterprises in Kerala. These include the wage cost hypothesis, psychic cost hypothesis (the labour militancy in the past and bureaucratic state can influence investment decision in Kerala), Capacity utilisation
hypothesis (the capacity utilisation of SSIs in Kerala is below 50 per cent), linkage hypothesis (due to absence of large scale industries in the state, the SSIs in Kerala have a very poor forward and back ward linkage effects), Upgradation of technology hypothesis (poor technology), Public policy hypothesis (Tharakan and Issac, 1984), Central investment policy hypothesis (Subrahmanian an Pillai, 1994), and Cultural traits hypothesis (Patrick, 1999). Other explanations for the poor performance of industries in Kerala include pressure tactics of the environmentalist lobby, lopsided structural growth, absence of marketing dynamism and absence of entrepreneurial culture (Muraleedharan, 2005).

The relevant studies identified and surveyed in the context of Kerala are presented below on the basis of a few common reasons for poor performance and failure of small enterprises.

1.2.2.1 Bad Policies and Programmes

Tharakan and Issac (1984) highlight the initiatives of the government in injecting dynamism and growth in the Travancore region during the 1940’s. However, this initiative was, to a certain extent, undermined by the alienation of native entrepreneurs and the resulting poor performance of small enterprises in the state. Oomen (1967) tried to examine the effectiveness of various Industrial Development Programmes in the state with regard to the creation of employment, utilisation of rural resources and dispersal of industrial growth. He found that the programmes could not achieve these designed objectives mainly due to their poor design, strategy and implementation. As a result, the performance of small scale
industrial sector in Kerala in terms of their employment, utilization of rural resources and dispersal of industrial growth remains far below the potential.

Ambilikumar (1989) found that the registration policy of Government of Kerala has resulted in unhealthy competition in certain products leading to failure of several small enterprises and the resulting poor performance of SSIs in the state. Babu (1978) identified that the performance of the vast majority of small enterprises in Kerala are far below potential and he attributed this to the failure of Government assistance programmes, which could not find desired fruits mainly due to its availability by persons with no aptitude for business. He suggests that the Government assistance should be linked with the performance of the entrepreneur.

Subrahmanian (1990) explains the causes of poor performance of the industrial sector in Kerala in terms of Central investment policy hypothesis. Till the 1990’s Central Government was a major investor at the regional level. Central Government down poured capital into a state like Maharashtra, Kerala had been getting declined share of central funds. Manalel (1999) points out that the incentives offered for small scale industries have failed to take into account the special region-specific problems of different states. The administrative set up for the delivery of these services may itself be eating away the lion’s share of the funds for these programmes. SSI sector never get more than two per cent of the plan outlay. As a result, the various incentive measures of government could not improve the performance of SSIs in the state that is characterised by poor performance.

Pillai (2001) mentions the bureaucratic problems and delay that the entrepreneurs in the state have to face as the major reason for poor performance of
SSIs in the state. The single window clearance scheme was designed to remove all these hurdles. However, the scheme has failed to get off the ground, and clearance still has to be obtained at numerous levels and entrepreneurs face procedural delay.

Mathew (2005) noticed the low lobbying capacity of the SSI sector in the state of Kerala. The Government policies are influenced by religious communities and certain caste leaders and their interest is in rent seeking activities like trade, banking, hotels, jewellery, private education and health institutions etc. It is due to the lack of proper Government policies that the state is experiencing a poor performance in manufacturing sector. Service sector and certain sub sectors have experienced a faster growth, while the manufacturing sector’s performance is very bleak. He reminds that the old institutional structures still survive without any significant developmental contributions. He advocated a participatory approach where panchayats, local governments, and private business associations should be involved in planning programmes for the development of the SSI sector.

1.2.2.2 Labour Militancy and High Wage

Oommen (1979) while analyzing the poor performance of SSIs in Kerala introduced labour disturbance hypothesis as the root cause of migration of traditional and non-traditional industries from Kerala to the neighbouring states like Tamil Nadu and Karnataka. It also pointed out the loss and inconveniences associated with labour strikes and disputes. Sankaranarayanan and Karunakaran (1985) emphasises the acute labour problems, absence of mineral resources and political instability (multi party rule) as the major reasons for poor performance and industrial failure in the state.
Subrahmanian and Pillai (1987) suggested an industrial structural hypothesis by demolishing the wage cost hypothesis for explaining the poor performance of SSIs. They referred to the nature of lopsided industrial structure in Kerala characterised by lagged development of industries like engineering and capital goods that establish inter-industry linkages for further industrial growth.

Albin (1990) who made a comparative study on the industrial performance of South India held some regional factors responsible for the state’s industrial backwardness. They are labour disputes, high wage cost, high land prices, low public investment, poor natural endowment and non-availability of entrepreneurs. Thampi (1990) points out that the general notion of higher labour cost inhibiting the growth of industries in Kerala is true, at least in the case of majority of industrial groups in the small scale sector. This has resulted in the poor performance of SSIs in the state and their migration to neighbouring states.

1.2.2.3 Raw material, Marketing, Technology, Poor Linkages, etc.

Rani (1985) reveals that short supply of raw materials, difficulties in marketing the products, Government policies, attitude of public enterprises, and management deficiencies are the major problem areas creating sickness in the small scale industrial units. The study recommends the development of infrastructure, curtailing of inflation, securing the favourable attitude of public enterprises, strict implementation of government policies regarding the small scale industrial sector, providing training to the first generation entrepreneurs, proper follow up by financial agencies, etc. as the measures to be taken against sickness. Patrick (2006) while analysing the grain mill products marketing strategies identifies that the new class of
industrial entrepreneurs are not strong enough to change the oligopoly market structure in favour of a more competitive environment in Kerala industry. New units often fail due to this market structure where the five major companies sell their products directly to the retailers.

Mathur (1979) identifies that the non-availability of good quality raw materials and inadequate quantities at competitive prices has been a constant irritant to the small industry. Rao (1981) identifies reasons such as marketing difficulties, lack of successful capital, disputes or lack of interest among partners, problems relating to raw materials, lack of power, difficulties in getting licence, technical problems, including machine troubles, mismanagement, etc., are responsible for sickness in this sector.

Rammohan (2000) claimed that technologically backward structure of the industry, with its attendant low labour productivity coupled with minimal forward and backward linkages shows the industrial backwardness of the state. Eapen (2001) while analyzing the poor performance of SSIs in the state found that in Kerala’s SSI sector there was a lack of forward and backward production and consumption linkages within the rural space that is capable of minimising the need for a rural-urban migration of labour. Their sourcing of raw materials and sale of output had virtually no links with the local-rural sector. In terms of employment, there was greater tendency to use non-local labour. She also emphasized the need to develop infrastructure and highlighted that the banks should play a greater facilitating role.
1.2.2.4 Finance

Ahmad (1987) observes that sickness in the small scale industrial units is due to the cumulative effect of many adverse factors such as shortage of finance, lack of working capital, unfavourable government policies, lack of market, shortage of power, etc. The Government of Kerala (1988) reveals that finance is the major problem area contributing to sickness and suggests that financial agencies should provide adequate and timely finance for solving this problem.

1.2.2.5 Entrepreneurial skill and traditional culture

Abraham (1989) revealed that lack of entrepreneurial skill and traditional culture are important reasons for the poor performance of the SSI’s in Kerala. Mathew (1995) stated that it is the lack of entrepreneurial culture that led to poor performance of the SSI sector in Kerala. He criticised the Bureaucrats for treating the small entrepreneurs as class enemies of the toiling class. He advocated planning and policies from within, directed by the entrepreneurs where the Business associations can play a key role. Thampi (1999) attributes high cost of production, psychological fear of entrepreneurs, escalating land costs and power shortage for poor performance of industrial sector in Kerala. Patrick (2004) establishes the reasons for failure of enterprises to the cultural traits of the entrepreneurs.

Joseph (2003) in an attempt to investigate the socio-psychological background of successful / unsuccessful entrepreneur in the SSI sector of Kerala found that factors such as religion, education, Government assistance and incentives, type of product produced, age of entry, previous employment, occupation of the father, motivation and social value orientation, etc. were significantly related to the entrepreneurial performance. The study also found that the Government policies and
programmes for the development of entrepreneurs in Kerala did not have much effect in making them a success. Lack of entrepreneurial culture in the state is the major reason for poor performance of SSIs in the state.

1.2.2.6 Other Factors

Harikumar (1994) made an attempt to identify the root causes of industrial sickness in the small scale sector in Kerala. He identifies internal and external causes leading to sickness. Internal causes relate to planning, implementation, production, marketing, finance, personnel and management. External causes are adverse effects due to changes in the environment in the form of economic, social, political, international or government legislations.

Prakash (1994) identified certain arresting growth factors such as unfavourable economic factors, unsound development policies, and unfavourable social, political and labour factors that cause poor performance of the industrial sector in the state. The problem of low credit–deposit ratio in Kerala is also highlighted (Special Correspondent of E. P. W, 1998). The political parties and Governments were attributing bank’s low credit–deposit ratio for the poor performance or the backwardness of the industrial sector. Banks on the other hand claimed that there were not any tangible and viable projects forthcoming to be financed. The banks noticed that all the Governments in power in Kerala have failed to develop infrastructure facilities and failed to discipline organised labour. According to them the poor performance of SSIs in Kerala is because of the fact that the state is lacking in an atmosphere congenial to industrial growth (E P W Special Correspondent, 1988).
Raghavan (2004) while analysing the performance of the Kerala economy commends that neither the large scale nor the small scale industries that exist in the state are capable of converting Kerala from consumer state to a producer state. He recalls the fact that the labour intensive industries fled to the neighbouring state of Tamil Nadu and Karnataka because of the mounting labour disturbances and aggressive trade union activities (Oomen, 1993). The rate of growth of manufacturing (SSI) sector in Kerala between 1971 and 1987 was only 3.8 per cent while the corresponding growth rate in Tamil Nadu and Karnataka was 5.3 per cent and 6 per cent respectively. He attributed the poor performance of the Kerala economy to the neglect of the industrial sector, especially the SSI’s.

One of the major reasons for the poor performance of SSI in the state is shortage of electricity, the most vital infrastructure. Narayana (2004) found that several industries like food processing, textile, paper, metal, drugs, medicines etc. are the hard hit sectors due to the removal of ‘Quantity Restrictions’. He recommended that technology upgradation, innovative marketing policy, product diversification, brand development etc. should be the main thrust areas for small producers. Pillai (1986) reveals that a high rate of sickness in the SSI sector of Kerala is due to very low investment in the majority of units and tiny units are unable to withstand market fluctuations and the untimely supply of successful capital.

Mazumdar and Nag, (1977) ascertaining the rate of mortality in the small scale industrial units reveals that mortality is not peculiar to any particular industry or group of industries and that product diversification is generally absent among the
dead units. The study also shows that out of the dead units, especially in Kerala, about 50 per cent are located in urban areas and the large number of dead units are in the lower size groups, measured either in terms of investment or employment.

The survey of relevant studies makes it clear that the problems faced by small enterprises stretches from finance to marketing at all-India level. Even in the midst of these problems, SSIs contribute significantly to the growth of nation economy, though there are differences of opinion regarding the effects of globalization. At the state level, there are some region specific factors apart from the common problems mentioned in national context. What is more disturbing is the high rate of mortality and sickness among small enterprises in Kerala due to the reasons, which can be classified into economic and non-economic including culture, mentioned above.

1.3 Research gap

There are several studies to explain the problems, causes of mortality, measures to improve the performance, etc., of the small industry. But there is little attempt to diagnose the causes for increasing mortality of small industries of Kerala in a holistic way and by comparing it with successful enterprises. The present study fills this gap by a simultaneous study of the entrepreneur and the unit in successful and failed enterprises to diagnose the causes of both sickness and failure of modern small enterprises in the state by making a sectoral attempt.

1.4 Statement of the problem

The performance of small scale sector in Kerala is far below the potential. This reflects in the high rate of sickness and closure rate in the SSI sector. According to the first All-India census of small scale industries, out of the total
registered units in Kerala 39.6 per cent were closed units. This was changed to 32.38 per cent during 1988 (second All-India census of small scale industries), and further to 34 per cent during 2001-02 (third All India census of small scale industries). The intensity of sick / incipient sick units in Kerala was 32.24 per cent (2001-02). The closure and sickness of SSI units cause direct economic and social hardship to the entrepreneurs, workers and their family, while indirect hardship to several others. The reason for this high death and sickness rate of small enterprises are economic and non economic. While the non-economic factors include the personal, social, and cultural traits of entrepreneurs, economic factors constitute size of investment, employment, strategies of marketing, production, etc. The present study looks into the factors leading to success, sickness and failure of modern small enterprises in the state.

1.5 Objectives of the study

1. To analyse the nature of success, sickness and closure of modern small enterprises.

2. To identify the factors behind the high mortality and sickness of modern small enterprises.

3. To analyse the inter-sectoral variation in the high mortality and sickness of modern small enterprises.

4. To make suggestions for tackling the problem of mortality and sickness of modern small enterprises.
1.6 Methodology

1.6.1 Conceptual framework

Following Micro, Small and Medium Enterprises Act, 2006 the units using power and having a total fixed investment above Rs. 25 lakh but less than Rs. 5 crore are included to mean modern small enterprises (MSMED Act 2006) in the present study. The ‘successful units’ mean those units which have been working continuously for a minimum of three years and are able to find sufficient fund from the earnings of the units (after meeting the variable cost) to pay the instalments of the borrowed fund without any default. Sick units are those having continuous decline in gross output compared to the previous two financial years or delayed in repayment of institutional loan for more than one year. Closed units are those which were not in operation for more than two years or the bank has taken possession.

1.6.2 Selection of Sample

Multi stage sampling is adopted to collect the primary data. In the first stage, Ernakulam is selected on the basis of geographical location. Ernakulam district is having larger share (13.07 per cent) of successful units in the state (third All-India census of small scale industries, 2002). Of the total closed SSI units in Kerala, the share of Ernakulam district is the highest i.e., 14.88 per cent. The share of sick / incipient sick units to total such units in the state is 6.63 per cent. Of the 19220 registered SSI units, 9679 small enterprises (50%) are identified as sick / incipient sick units in Ernakulam (third All-India census of SSIs, 2002). Hence, the selection of Ernakulam is justified.
In the second stage, major sectors in the manufacturing / processing are identified. The sampling frame is the list of enterprises in these five sectors. They are food products, rubber, plastic, chemical that included paint and engineering which included electrical and electronics; consisting of successful, sick and closed units. The selection of five sectors is based on the number of registered units belonging to various productwise sectors in the district. 14.25 per cent of modern small enterprises in Ernakulam belong to engineering sector, 10.38 per cent are chemical units, 8.1 per cent are food, 7.94 per cent are plastic and 5.38 per cent are rubber units (DIC, Ernakulam).

**Table 1.1 Number successful, sick and closed MSEs (selected sectors) in Ernakulam**

<table>
<thead>
<tr>
<th>Sl No</th>
<th>Sectors</th>
<th>Successful units</th>
<th>Sick units</th>
<th>Closed units</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Food</td>
<td>63</td>
<td>46</td>
<td>43</td>
</tr>
<tr>
<td>2</td>
<td>Rubber</td>
<td>42</td>
<td>32</td>
<td>26</td>
</tr>
<tr>
<td>3</td>
<td>Plastic</td>
<td>62</td>
<td>37</td>
<td>34</td>
</tr>
<tr>
<td>4</td>
<td>Chemical</td>
<td>81</td>
<td>35</td>
<td>37</td>
</tr>
<tr>
<td>5</td>
<td>Engineering</td>
<td>91</td>
<td>43</td>
<td>41</td>
</tr>
<tr>
<td>6</td>
<td>Total</td>
<td>339</td>
<td>194</td>
<td>181</td>
</tr>
</tbody>
</table>

Source: DIC, Ernakulam and Kerala State Small Industries Association, Ernakulam

The list of successful, sick and closed units in the district was collected mainly from District Industries Centre, Ernakulam. K.F C also helped to identify sick and closed units that availed of loan from it. Kerala State Small Industries Association, Ernakulam helped to classify units in the district in terms of their produced products. In the third stage, non-proportionate random sampling was used
to select the entrepreneurs of successful and sick units. Twenty successful and sixteen sick units each were taken from all the five sectors. As the data about the universe in closed units is not available, four entrepreneurs each from five sectors have been identified after discussions with D.I.C, K.F C and the officials of Small Industries Association, Ernakulam.

In the fourth stage, the entrepreneurs of the selected enterprises have been interviewed with structured interview schedule. In cases of sole proprietorships the proprietors, in partnerships the active partners, and in private limited companies the Managing Directors were interviewed. In the fifth stage, selected case studies of 10 closed units and 5 successful units with equal representations to all five sectors were also conducted.

1.6.3 Tools for Analysis

Various statistical tools such as averages, standard deviation, discriminant analysis and regression analysis are used to interpret the data. Discriminant analysis is used to identify whether the variables selected is capable of discriminating the units surveyed as successful, sick and closed. Regression analysis is used to identify factors that cause for better performance by taking income as dependent variable and other variables independent variables. Selected case studies of closed and successful units are used to empirically prove the survey result.

1.7 Importance of the study

Earlier studies of small scale sector were mainly concentrating on reasons for sickness or on the profile of the entrepreneurs. The present study is an interrelated study of successful, sick and closed units. The present study made a sectorwise
analysis of five important sectors in terms of their performances and hence the present study is different from the earlier studies.

1.8 Limitations of study

The present study considered only Ernakulum district as a representation of the state in analysing the performance of the modern small enterprises in Kerala. So the present work could not consider a region wise analysis of the performance of the modern small enterprises in the state. Similarly, study considered only five sectors such as food, rubber, plastic, chemical and engineering. As there are many other sectors, which need to be included for a complete sectorwise analysis, it is not a comprehensive sectorwise study. The study being a diagnostic approach, the scope for a theoretical framework is limited.

1.9 Plan of the study

The study consists of seven chapters. The first chapter, as already shown, provides a brief introduction followed by a review of literature, the statement of the problem, objectives, methodology and limitation. The second chapter is discussing about the performance of small scale industries in India. The third chapter analyses the over all performance of small scale industries in Kerala. The fourth chapter analyses the nature of sickness and closure of modern small enterprises. It includes the background profile of entrepreneurs and nature and organisation of units. The fifth chapter identifies the factors behind the high mortality and sickness of modern small enterprises. The sixth chapter analyses whether there is any sectoral differences regarding the factors that influence the performance of modern small enterprises. The seventh chapter includes suggestions and conclusion.