CHAPTER - I

INTRODUCTION

In 1991, when the process of liberalisation, privatisation and globalisation of the economy began in our country, apprehensions were expressed that the Small Scale Industries (SSI) would be unable to withstand the opening up of the economy. The protections enjoyed by the sector in the form of product reservation, market reservation, priority sector lending, fiscal concessions etc., were axed by the name of reforms. The SSI has to compete on their own and to find a place for them in domestic and foreign market. However, Government and financial institutions begin to do some promotional activities in favour of SSI in the place of protection. Interest rate concessions, technology assistance, equity support, enlargement of coverage, enhancement of limit, extension of single window scheme, simplification of rules and regulations are a few to name the promotional measures.
The small scale Industries (SSI), of course, enjoys certain inherent strengths such as lower over-head cost, flexibility in production, informality in labour relations, exploitation of local resources and skills, capacity to execute small orders and to offer customised services. Through these strengths SSI is making a valuable contribution of about 40 per cent from overall total manufacturing sectors production, 35 per cent to exports and employees involves over 170 lakh workers. At the same time, it is important to note their vulnerability in the context of emerging global environment. C.S.Prased\(^1\) has pointed that the following difficulties currently faced by SSI. (1) Loss of protected environment (2) Greater competition from imports (3) Reduction in conventional subsidy (4) Widening knowledge and technology gap as a result of revolutionary change in technology (5) Quality and standard gap (6) Inability to match the prescribed hygiene and health standards (7) Poor labour standard (8) Increased export risk (9) Difficult environmental regulations (10) Lack of awareness and information on World Trade Organisation provision the author's review on SSI is still facing some perennial problems
like poor infrastructure facilities inadequate credit, delayed payments by large industries, procedural delay in getting Government clearness, harassment, non availability of skilled manpower, lack of marketing facilities etc.,

Management consultancy is becoming an indispensable marketing service for smooth and speedy industrialisation and hence it is being considered as a vital component aspect for upgrading knowledge, skills and attitudes for entrepreneurs. It helps them to achieve better performance for developing their own dynamic enterprises. Its contribution starts from pre-investment stage and continues through implementation and operation stage of enterprises. It is noteworthy to mention, the S.S. Nadkami’s statement that "I do not know of any corporate problem where the solution decided upon, can not: improved by a second look. If involves 'a look' from an outside agency, which has some experience and expertise in tackling problems it is all the more rewarding, to my mind a management consultant precisely fills this role².

Management consultancy is multifaceted field. It includes, giving advice, conducting research, and testing attitudes and opinions, suggesting solutions to the problems
and methods for organising work. The entrepreneurs require management consultancy at five stages namely 1) Pre-operative stage, 2) Take-off stage, 3) Postoperative stage, 4) Expansion stage and 5) Sickness stage.

Over the years, the number of management consultants and their range of services has been growing and the profession has built a strong base in India and abroad. The Small Industry Service Institute (SISIs) Technical Consultancy Organisations (TCOs) and Consultancy Service Cell (CSC) have been established by the Small Industries Development Organisation and All India Financial Institutions and Commercial Banks respectively, for providing consultancy services.

Beside the important management consulting organisation institution there are some management departments in Universities, Professional management institutions, national and state productivity councils, and quality making centres and district centres which provide consultancy service private consultants, individuals as well as firms have also better joined the streams. While SISIs and
TCOs cover the whole gamut of activities related to a project cycle. CSCs concentrated their efforts on selectee services of small enterprises to ensure productive use of the credit granted to them by commercial banks. To improve the designs of the products of small-scale industries, the entrepreneur can approach the Industrial Design Cell (IDC) and National Institute of Design (NID). This Cell has been engaged in evolving new designs, which are suitable for production in the small-scale sector with its limited resources and mechanical and technical ability. The National Institute of Design organised training programmes for entrepreneur, graduates and designers. Apart from the above two there are some of private sector design companies like Elephant Design, Federal Technologies, Ohio Design, Incubis, Design Directions, etc. In contrast, the private consultants have no functional specialisation, location, boundaries and size-wise restrictions. However, they help small-scale units only sparingly. They prefer larger and repetitive assignment for various reasons.

A network of Technical Consultancy Organisations (TCOs) was established by the all India financial institutions in the seventies and the eighties in collaboration with state level
financial development institutions and commercial banks to cater to the consultancy needs of small-scale industries and new entrepreneurs. At present, there are 17 TCOs operating in various states, some of them covering more than one state.³

1.1 MasiaigeBisemt systems SEE small aad cottage industries

The following types of various management approaches in small-scale industries have been emerged for the generation of employment activities in Rural India.

Under different programmes, various types of approaches for the development and management of employment in small and cottage industries have emerged. Among them four broad systems (Models) could be identified as: (i) Independent enterprises Model (ii) Cooperative Model (iii) Federated enterprise Model and (iv) Contract job Model. The present study attempts to analyze relative importance of the four-management models for employment in small and cottage-industries in Tamil Nadu.
First model

This emphasises that the model the beneficiaries should be trained in different areas of activities and providing them with financial assistance to procure materials and other-inputs to start their own enterprises. The beneficiaries should also be freed to procure inputs from any other source and sale their products to the consumer directly or can sell to the retailers. The advantage, in this system is that the entrepreneur can directly sell his product at a price fixed by him for maximum profits. However there are many disadvantages also.

These are high cost of inputs as the individual beneficiary buy in small quantities, no control over market prices as the market prices are manipulated by large traders, and uncertainties in the supply of inputs and marketing of the produce. Beneficiaries assisted under Integrated Rural Development Programme (IRDP), Training of Rural Youth for self-employment (TRYSEM), Khadi and Village Industries Commission (KVIC) and Handloom Board for Silk saree Weaving and carpet making in the study area could not sustain their activities as the marketing was in the hands of
private traders who dictated the prices resulting uneconomic returns to the independent entrepreneurs. Most of the these entrepreneurs, had therefore started contract job for the private traders.

Secosad aiodell

This is the most advocated model as the entrepreneurs are organized in a cooperative and it takes care of supply of inputs as well as marketing of the products. This model has not been very successful except in exceptional cases where the cooperatives were managed by the dedicated and honest persons.

There are many reasons for the failure of cooperative system but the a few important ones are: i)Lack of dedicated leadership Lack of business professionalism, iii) Lack of effective quality control on the inputs and the products, iv)Heavy dependence on Government subsidies, v) Corruption and vi)Lack of competitiveness with Private market.
Third mode!

In this system all individual entrepreneurs are federated with a large marketing agency which provides all essential inputs to all units and collects their produce. In principle, this is the most ideal model as such agencies can produce inputs in bulk quantities at reasonable price and sell the produce in large and distant markets. The State Trading Corporation of Utter Pradesh (STCUP) had also introduced this model to cover handloom cotton, silk and carpet weavers, handicrafts and other products. In most of the states, KV7C supported Khadi and Village Industries (Boards) have also adopted this model.

While in some product areas, these have been successful, in many areas they failed due to the similar reasons as in the case of cooperatives.

Fourthli model

The private traders and business house enter into contract with individual weavers, manufactures and producers to do the job for them at a specified price or wage rate. Most of the silk saree weavers, carpet makers and other small
manufacturing units have direct contract with the private traders and market agencies. The private traders supply all necessary inputs, product design and quality specifications and strictly monitor them. Though the system is exploitative and maintains low level of profit or wages for the workers, it has certain advantages too. The most important are: i) Certainty of work round the year, ii) Availability of financial assistance from the traders and required to meet urgencies of the workers and, iii) Easy availability of finance for the expansion of the unit.

The programmes, and the management models for employment as obtained in the study area and discussed above are also existence in other parts of the country with varying degree of success. Though there are various deficiencies in all the four models discussed above, these can be ignored in favour of a single fact that all of these have definitely enlarged the scope for employment. It is difficult to believe that an unskilled unemployed would directly get into gainful self-employment without passing through intermediate stages of part-employment, skill building, and gaining of experience in marketing produce.
1.2 Statement of the problem

Mass poverty and widespread unemployment are the two most pervasive phenomena in the Third world countries, India is no exception. India is a land of villages, with 76.7 percent of her population living in villages and that carries the bulk of the poor. Poverty in India is rural poverty misfyy. The causes of poverty are many and well known, some of the important reasons for poverty can be identified as: Uneven distribution of production resources; high rate of population growth; low productivity in agriculture and allied sectors; high dependence on agriculture and high rate of illiteracy. The culmination of all these factors is reflected through low income and large unemployment. The rural development programmes have focused on creating more opportunities for generation of income and employment, with the aim of alleviating rural poverty.

The industrial policy resolution of 1948 set the goal for the development of rural industries. It stated that cottage and small-scale industries have a very important role in the national economy offering scope for individual village or cooperative enterprises. The Industrial policy resolution of
1956 further reaffirmed that the state supports for small-scale village industries. To overcome the problem of organization, six all India level bodies, Khadi and Village Industries Commission (KVIC), Handlooms Board, Handicrafts Board, Coir Board, Silk Board and Small Scale Industries Development Board (SSIDB) were established. Both at the central and state levels, these bodies are engaged in promoting employment through training, financial assistance and infrastructure development for small and cottage industries.

1.3. Objectives

The specific objectives of the present study are:

i. To assess the relative performance of the selected management models adopted in small scale and cottage industries.

ii. To compare the magnitude and dimensions of employment generations made by the industries under the different management models.

iii. To identify the factors responsible for the differential performance in the selected small scale and cottage industrial units under different management models.

iv. To review the problems experienced by the small-scale and cottage industrial units.

v. To suggest the appropriate strategies of management to improve their performance.
1.4 Hypotheses

© The performance in terms of select indicators, is higher in independent enterprises, than in other forms of management.

© The performance is affected more adversely in the co-operative model than the model of federated enterprises and contract job model.

© The differential performance in the industrial units under different management models is a function of accessibility to capital, raw materials and marketing capability.

1.5 Methodology

The present study has been designed to use primary data and also secondary data for analysing the performance data for analysing the performance of small scale and cottage industries. This study will also be focused on the performance of the small scale and cottage industries with performance to the four promenade management models.

In this study, the characteristion of the performance analysis of small scale and cottage industries will be confined only for the period of 5 years from 1.4 1994 to 31.3.1999. This reference period of the study relates to the financial year from 1.4.1994 to 31.3.1999.
Primary data have been collected by direct field survey in selected concentrated sample areas, secondary data have been obtained by indirect survey that is from the record of District Rural Development Agency (DRDA) office, Khadi and Village Industries Board (KVIB), Khadi and Village Industries Commission (KVTC), Handloom Society, Ministry of Handloom and Textiles, Statistical Office and Various journals, reports etc.,

Dindigul district has been selected as a study area because the small scale and cottage industries are booming for the past 10 years. However, only a few areas, blocks, unions have been successfully generating employment and related benefits in different parts of Dindigul. That is the concentrated sample areas are randomly distributed in and around Dindigul District.

Further another reasons for selecting Dindigul district is very obvious that Dindigul district economy is mostly relying upon small and cottage industries in and around Dindigul-
The study area has been designed on the basis of the concentrated areas. There blocks have been identified as a concentrated because of the existive of large number of small and cottage industries namely (i) Dindigul, (ii) Athoor (iii) Nilakkorttai.

Since the 30 per cent sample size has been selected - with reference to the four management models for the year 1998-99. Then a sample of 92 entrepreneurs have only been identified from the total population in the same year.

A total of 92 sample entrepreneurs consisting of 47 ISB beneficiaries, 5 Handloom Co-operative Societies, 10 KVIB • units and 30 individual weavers were interviewed with the pre-tested questionnaire. The present study is an interdisciplinary exercise employing tools of analysis available in the disciplines of economics and management. Besides, statistical tools like average, percentages, Multiple Linear Regression have been used in order to gauge the performance of the management models under study. Wherever pertinent graphical representation like bar and pie charts have also been employed for highlighting the conditions of the activities.
1.6 Concepts

The Indian Industrial policy Resolution of 1990, the investment limit in plant and machinery has been raised from Rs.35 lakhs to Rs.60 lakhs. Correspondingly for ancillary units, it has been raised from Rs.45 lakhs to Rs.75 lakhs and for tiny units, from Rs.2 lakhs to Rs.5 lakhs.

The term 'entrepreneur' in the study refers to the owner of a small-scale manufacturing firm. In the case of a family partnership firm, the key person has been treated as the 'entrepreneur'. In the case of a non-family partnership firm or a limited concern, the main partner (in terms of investment) has been considered the entrepreneur.

In the present study, economic success of entrepreneurial activity is conceptualised as a function of profit rate (entrepreneur's earning power), reinvestment (entrepreneur's aspiration for higher earning), risk involved and resource mobilisation capacity.

Entrepreneurial ability is conceptualized as a function of entrepreneur's technical talent, managerial talent and aspiration for higher earning. The entrepreneur's technical talent is reflected through rate of output. His managerial
talent is reflected through profit rate and credit rate proportion of net profit reinvested shows his aspiration for increased earning through modernisation and expansion.

1.6.1 Performance indicator

In consultation with the exports in entrepreneurship study and on scrutiny of literature, rate of output, credit rate profit rate and proportion of net profit reinvested have been identified as important indicators of entrepreneurship performance.

1.6.2 Explaining variations in entrepreneurial performance

To study namely to examine the extent of variations in performance exerted by the explanatory variables, multiple linear regression linear regression equations were fitted to explain the variations in rate of output, credit rate, profit rate and proportion of net profit reinvestment as follows:

\[ \text{RO}^* = a_0 + a_1 X_1 + a_2 X_2 + \ldots + a_{14} X_{14} + a_{16} X_{16} + a_{17} X_{17} \]

\[ \text{CR}^* = b_0 + b_1 X_1 + b_2 X_2 + \ldots + b_{14} X_{14} + b_{16} X_{16} \]

\[ \text{PR} = c_0 + c_1 X_1 + c_2 X_2 + \ldots + c_{17} X_{17} \]

\[ \text{PPR} = d_0 + d_1 X_1 + d_2 X_2 + \ldots + d_{17} X_{14} \]

*Sales \((X_1)\) has not been taken in the rate of output function as it is not relevant to explain the variation in the rate of output.

† Institutional and Non-institutional credit supports \((X_{16} \text{ and } X_{17})\) have not been in the credit rate functions as they are not relevant to explain the variations in the credit rate.
Where $R_0$ stands for rate of output, $CR$ for credit rate, $PR$ for profit rate and $PPR$ for proportion of net profit reinvested.

\[ X_1 = \text{Ratio of fixed capital to labour} \quad (\text{Capital intensity} - \text{I}) \]
\[ X_2 = \text{Ratio of working capital to labour} \quad (\text{capital intensity} - \text{II}) \]
\[ X_3 = \text{Entrepreneur's education} \]
\[ X_4 = \text{Age of the entrepreneur} \]
\[ X_5 = \text{Previous experience of the entrepreneur} \]
\[ X_6 = \text{Training of the entrepreneur} \]
\[ X_7 = \text{Ancestry} \]
\[ X_8 = \text{Dummy for proprietorship firm} \]
\[ X_9 = \text{Dummy for inheritance} \]
\[ X_{10} = \text{Dummy for location of the firm} \]
\[ X_{11} = \text{Age of the firm} \]
\[ X_{12} = \text{Compensation ration} \]
\[ X_{13} = \text{Market extension} \]
\[ X_{14} = \text{Entrepreneurial Behaviour Index (EBI)} \]
\[ X_{15} = \text{Sales} \]
\[ X_{16} = \text{Institutional credit support} \]
\[ X_{17} = \text{Non-Institution credit support}. \]
To examine the problem of multi-collinearity zero-order correlation coefficients have been computed. If the coefficient of correlation between any two variables is greater than or equal to 0.8, the one which is theoretically less relevant has been dropped each time. Thus, three variables namely dummy for family types (X18), parents education (X19) and emigration (X20) have been dropped.

1.6.3 Measurement of the Variable

This section outlines how dependent and explanatory variables have been measured.

Measurement of dependent variables

Rate of output

Rate of output has been measured as the ratio of grass value of output to gross value of inputs. Here value of inputs includes compensation to staff and workers, intermediate consumption, rent and capital service (interest and depreciation).

Credit rate

Credit rate has been measured as the ratio of total outstanding repaid to total long term loan weighted by the reciprocal of the number of years taken to repay the amount.
That is,

\[
\text{Credit Rate} = \frac{\text{Total Amount repaid}}{\text{Total long-term loan}} \times \frac{1}{\text{Number of years taken to repay}}
\]

It an entrepreneur has not availed himself of long term loan, his credit rate has been taken as ‘one’. In case of non-repayment of the borrowed money, credit rate is taken as ‘Zero’.

**Profit rate**

Profit rate has been measured as the ratio of net profit to total capital asset which is fixed capital plus working capital. Net profit after tax and interest has been used to calculate profit rate which is the return on capital.

**Measurement of explanatory variables**

**Capital intensity - I**

Capital intensity - I has been computed as the ratio of total fixed capital to total number of workers.

**Capital intensity - II**

Capital intensity - II has been computed as the ratio of total working capital to total number of workers.
The score value have been assigned to this variable as follows:

a. Technical graduation - 4
   (Relevant to the particular model)

b. Technical Diploma - 3

c. Non-technical graduation
   Post-graduation - 2

d. Others (S.S.L.C/PUC/+2) - 1

e. Below S.S.L.C Illiteracy - 0

An additional score of one has been given for other professional degrees like M.B.A.,

Age of the entrepreneur

Age of the entrepreneur has been marked as the number of completed years as an 31st March 1999 as revealed by the respondents.

Previous experience

Previous experience refers to the period during which an individual entrepreneur has engaged himself in only remunerative activity relevant to that particular model, prior to the establishment to the unit.
Training

Training has been measured by including the total period spent by an individual entrepreneur to acquire a particular skill through professional managerial and other skill oriented training. In the calculation of the total period, a weight of three has been allotted to professional training, two to managerial training and 'One' to skill oriented training.

Ascoetry

The score value have been given to this variables as follows:

a. If both father and grand father have been in business, the score given is 'two'.

b. If either father or grandfather has been in business, the score assigned is 'one'

c. If neither father nor grandfather has been in business, the score allotted is 'zero'.

'Proprietorship firm' has been measured as a dummy variable. If the firms is a proprietorship firm, the variable takes the value 'one'. Otherwise it takes the value 'zero'.
Inheritance

'Inheritance' has been measured as a dummy variable. If the firm is founded by the present entrepreneur, the variable takes the value 'one' otherwise, it takes the value 'zero'.

Location of the firm

Location of the firm has also been measured as a dummy variable. If the firm is located in the industrial estate, (KVIB, ISB, Cooperative Society Master weavers) the variable takes the value 'one'. Otherwise it takes the value 'zero'.

Age of the firm has been measured as the number of years completed since its establishment.

Compensation ratio

The ratio of wages paid to skilled workers to total wages has been marked as 'compensation ratio'. Here wages included fringe benefits also.

Market extension

The variable 'market extension' has been measured as shown below:
Category                           | Score Value
---                                 | ---
a. Local market (within the district) | 1  
b. Local market and other district or other district only | 2  
c. Local market, other district and other states or other districts and other state only | 3  
d. All the markets including foreign or foreign market only | 4  

Entrepreneurial Behaviour Index (EBI)

Using psycho-sphere components included in entrepreneurial behaviour scale and ranks allotted to each component the score values and scale values for all the components have been computed for the construction of the index at an interval level, the normalized rank method has been employed.

Using the scores and the scale values, Entrepreneurial behaviour Index $^6$ has been computed as follows.

$$\text{EBI} = \frac{\sum_{i=1}^{N} c_i \times x_i}{\sum_{i=1}^{N} c_i \cdot N}$$

Where $s_i$ refers to the score obtained $M_i$ the maximum score and $C_i$ the scale value of $i$th component.

Sales

Sales has been taken in terms of money value.

Institutional credit support

Institutional credit support has been measured as the ratio of total loan amount borrowed from financial institutions to total capital assets.

From - Institution Credit Support

Non institutional credit support has been measured as the ratio of loan raised through informal sources (including chit funds) to total capital assets.

Family type

Family type has been measured as a dummy variable. If the family is of joint family type, the variable takes the value 'one'. Otherwise, it takes the value 'zero'.

Parent's education

Parent's education has been measured as the aggregate years of formal education acquired by the entrepreneur's father.
Emigration

Emigration has been measured as the number of years an emigrant has been living in Dindigul district after leaving his native place.

1.7 Scope of fine study

The study will be helpful not only to plan for different sources of management models to meet the needs of the entrepreneurs in different blocks, but also to manage and conserve the available data sources. The study will assist greatly in providing the total entrepreneurs employment level of the country since it covers different types of management model in various employment levels in different blocks.

By means of the survey it is hoped that a better understanding of management models in various blocks will be obtained to solve entrepreneurs employment problems. This study looks critically at the entrepreneurs employment policy and its implications for management models in various location specific regions. So it will also help to design a viable and suitable "need based management model for entrepreneurs to meet the employment level needs of the entrepreneurs in different blocks of the district."
1.8. Limitation of the study

> The study has been designed to analysis the performance of small and cottage industries, only for four management models.

> The study period has been restricted only 5 years.

> The limitation of the study is only on rural unemployed persons and

> The primary data for the first two models discussed in the chapter have been collected directly from the 47 entrepreneurs (ISB beneficiaries) and 30 individual weavers. The primary data for other two models collected from the officials, owners, who provide employment cooperative. Federated enterprises.

The thesis is organised in to seven chapters. The first chapter provides a brief introduction and states the problems, the objectives, the hypotheses, the methodology, the scope and limitations of the study. The second chapter provides the role of small and cottage industries in Indian Economy. The third chapter reviews the past studies and literature on four management models. The fourth chapter present the profile of the study area. The fifth chapter analyses the different management models on employment generation. The sixth chapter presents the data analysis and the discussions. The last chapter highlights the summary of the findings and suggestions.
References

