

# *Chapter - I*

## *Introduction*

**A STUDY ON THE IMPACT OF THE MNCs ON THE SMALL SCALE  
CARBONATED SOFT-DRINK INDUSTRY IN  
TIRUCHIRAPPALLI DISTRICT**

**CHAPTER I  
INTRODUCTION**

The Small scale sector has been considered by economists to play a tremendous role, in shaping the Indian economy. The Indian economy is said to have been greatly engineered by the contribution of this sector, in terms of its contribution towards gross Domestic Product, employment generation, foreign exchange earning and its impact on the socio economic conditions of the poor and the marginalized. While the small scale sector is said to be able to create employment for around 172 persons with an investment of about one million rupees, the large scale sector is said to employ only around one-fifth of that done by the small scale sector.

The small scale industry has played a very important role in the socio-economic development of our country over the period of 60 years, since independence. Small scale industries have very important role in the national economy offering scope for individual, village or co-operative enterprises and means for rehabilitation of displaced persons. These industries are particularly suited for the better utilisation of local resources and for the achievement of self-sufficiency in respect of certain essential goods. They offer more equitable

distribution of national income and facilitate effective mobilisation of resources of capital and skill, which might otherwise remain unutilised.

The role of the Small scale sector becomes crucial in this context, because small enterprises by their very nature have a strong local content and relevance. They utilise local resources and skills and meet the needs of local markets. Being dispersed all over the country, the sector can integrate the local industries into the national economy. It can correct regional imbalances in economic development of the country.

For India, a country that has been limping with one of the largest populations in the world, the small scale sector has been opined to be a blessing because of its employment potential.

Because of the decisive role of the small scale sector in structuring the national economy, certain concrete measures were adopted by the Government of India through its Industrial Policy Resolutions (IPR). While the IPR of 1956 paved the way for the development of an active small scale sector, the 1977 IPR highlighted the need for greater push to the sector. The concept of 'Tiny sector' was introduced in 1977. To serve as catalysts for the growth and development of the small scale sector, District Industries Centres (DICs) were set up. With the aim of generating higher levels of employment at lower capital cost, Technology Development Centres were established to help the small scale sector

in product development, establishment of tool rooms, process and product testing etc.

In spite of all the efforts put forth by the Governments at the centre and at the states, the small scale sector could be considered to be making only a slow growth due to inadequate credit facilities, cold approach of financial institutions, heavy interest rates, inability to develop market, Government regulations and red tapism, poor quality of the products, lack of skilled workforce, labour struggle and much more .

At this juncture, because of domestic compulsions and more because of compulsions by the international bodies like IMF, IBRD, and WTO. The process of liberalization of the Indian economy was initiated amidst many a criticism from the side of economists and Gandhians.

Contrary to widespread expectations, sources of tension among the leading capitalist powers have increased side by side with their growing interdependence. Nor has the geographic spread of capital reduced the contradictions between the rich and poor nations. Although a handful of third world countries, benefiting from the globalisation process, have made noteworthy progress in industrialisation and trade, the overall gap between core and periphery nations has kept on widening.

For the sake of perspective, it is worth recognising that the recent splurge in globalisation is part of an ongoing process with a long history. To begin with,

capitalism was born in the process of creating a world market, and the long waves of growth in the core capitalist countries were associated with its centuries-long spread by conquest and economic penetration. In the past as in the present, competitive pressures, the incessant need for capital to keep on accumulating, and the advantages of controlling raw material sources have spurred business enterprise to reach beyond its national borders.

In India, the liberalisation process was initiated following a balance of payments crisis in 1990-91. As India steered its economic policies towards increased participation in the global economy, a range of political, ideological and economic parameters have been modified. Besides domestic economic compulsions, India was also under pressure from world monetary institutions, the IMF and the IBRD, of which, India has been a beneficiary and also from the WTO, of which India is a member, to dilute restrictions on the unfettered flow of goods and capital. Thus, the external sector reforms under the New Economic Policy of 1991 comprised of the rationalisation and dilution of tariff structure and permission of majority control to foreign investors in collaborative ventures in India.

Domestic firms in India, which once enjoyed the benefit of sheltered markets, started facing competition from global giants from 1990s. Sheltered markets had once allowed Indian entrepreneurs to develop strong brands that have held their own against the onslaught of the Multi National Companies (MNCs).

The process of liberalization is being debated till date to have serious destabilizing impact on the Indian economy. The reforms that were initiated by the New Economic Policy, 1991 were commented to strengthen more the MNCs than the small scale industries in India.

In the soft drink industry, the fear of destruction and devastation was more vehemently and vociferously put forward at the advent of Pepsi and Coca-cola in India with a big bang. The takeover of almost all the leading domestic soft-drink brands like Gold Spot, Thums Up, Limca, Maaza, and Citra from Parle Beverages by Coca-Cola, and Duke's Lemonade, Mangola etc from Duke's by Pepsi, wiped out competition and this confirmed the fears of those who claimed that liberalisation would destroy the domestic soft-drink industry. In this context, it is considered to be imperative to ascertain the facts about the situation in which the industry is. Hence, **A STUDY ON THE IMPACT OF THE MNCs ON THE SMALL SCALE CARBONATED SOFT-DRINK INDUSTRY IN TIRUCHIRAPPALLI DISTRICT**, was taken up.

#### **OBJECTIVES OF THE STUDY**

The study has been structured to ascertain the impact of MNCs on the soft-drink industry with the following objectives:

1. to study the impact on the forms of organization
- 2 .to examine the impact on the nature of investments
- 3 .to find out the impact on the human resource management
- 4 .to inquire into the impact on production

- 5 .to probe into the impact on marketing
- 6 .to identify the problems of the industry and
- 7 .to make suggestions, if necessary.

### **HYPOTHESES OF THE STUDY**

To empirically derive, explain and analyse the facts, the following hypotheses were framed :

- 1 There is no significant association between the amounts of capital of the respondents before and after the entry of the MNCs.
- 2 The borrowings of the respondents is higher before the entry of the MNCs than that of the borrowings after their entry.
- 3 There is no significant increase in the number of employees in the soft drink industry after the entry of the MNCs.
- 4 The production in terms of number of bottles has declined after the entry of the MNCs.
- 5 There is no decrease in the rate of profit earned by the respondents after the entry of the MNCs.
- 6 There is no significant difference among the quantum of demands in the urban, semi-urban and the rural markets after the entry of MNCs.

### **SCOPE OF THE STUDY**

The study has been made only about the soft-drink manufacturing units in Tiruchirappalli district irrespective of the fact whether they are licensed by the appropriate authorities or not and whether or not they are members in the association of soft-drink manufacturers of the district.

Though the Primary data for this study have been actually collected during 2005 to 2007 it has been structured to collect data about the industry even before and after the advent of the MNCs.

The thrust of the study has been made to enquire into;

the forms of organization

the forms of capital invested

the management of personnel

the market and the marketing strategy and

the problems and challenges.

#### **LIMITATIONS OF THE STUDY**

The soft-drink manufacturing units operating in places other than Tiruchirappalli district have been kept out of the purview of this study since the universe of this study covers the soft-drink industries in Tiruchirappalli district only.

The data collected, used and presented in this study relate to the period, 1993-2006 though the actual collection of data through the questionnaire / interview schedules was carried out only during 2005 - 07.

Though the industry was influenced and shaped by many factors other than the impact of the MNCs, they have not been concentrated.

The validity of the data, conclusion and suggestions purely depend on the authenticity of the data supplied and the sincerity in answering the questions in the questionnaire / interview schedule.

Written records or documents were not made available to the researcher by all the units. Many units asserted that they do not have the practice of maintaining written documents. Records for tax purposes were maintained by their auditors. Hence, the possibility of recall bias cannot be ruled out.

**CHAPTER SCHEME :**

The dissertation has been designed to contain the following scheme of chapters to make it sequential and orderly.

CHAPTER I	INTRODUCTION
CHAPTER II	MATERIALS AND METHODS.
CHAPTER III	REVIEW OF RELATED LITERATURE
CHAPTER IV	ANALYSIS OF THE IMPACT OF THE MNCs ON THE SMALL SCALE CARBONATED SOFT- DRINK INDUSTRY
CHAPTER V	FINDINGS, SUGGESTIONS AND CONCLUSION.