CHAPTER - I

Research Design
and
Methodology
1.1 INTRODUCTION

Every country is making conscious efforts to accelerate the process of industrialization with a view to achieve full employment and provide opportunities for comfortable living. But, development, whether economic, social, industrial, agricultural or aggregate is a highly complex phenomenon. It is the end result of relations among a host of factors comprising natural endowment, factor inputs, technology, human beings and their institutions. Neat depiction of the development process and causal relations are a hard task. The development is significantly effected by the nature and functions of the institutions and the efficacy with which they discharge. Further, development has a close relation with the socio-political pattern of distribution, technical progress, financial and development institutions as well as with the attitudes and behavior of the economic agents. Admittedly, it is very difficult to precisely estimate the contribution of the governing factors to the end combined product called development. Though it may appear that every country or state desires development irrespective of their size and present stage, it is a challenging task to tune the proximate factors. A look into the pages of history of global economies clearly tells that both planned economies and free enterprise countries recorded significant progress. However, the achieved progress was neither balanced linear
nor a development which was conducive for the welfare of the masses at large.

1.2 STATEMENT OF PROBLEM

A number of notable studies available on the front of industrial development which is closely tied with aggregate development denote that economic and industrial growth proceeds in certain stages or with a discernible pattern. Realizing the importance of institutions, soon after independence, both Union and State Governments have shown interest in setting up various industrial development institutions to cater to the needs of industries. Today we have a dozen All India Institutions and about a half-a-dozen institutions in Karnataka. Karnataka State Small Industrial Development Corporation (KSSIDC) is one such institution with which this work is mainly concerned. Any development basically requires a continuous evaluation of the functioning or performance of institutions involved in the development process. Unless their performance is closely monitored from time to time it may be difficult to achieve the desired objectives. The present study is an effort in the direction of assessing the performance of Industrial Development Institutions. Hence, the statement of problem chosen has been entitled "PERFORMANCE EVALUATION OF INDUSTRIAL DEVELOPMENT INSTITUTIONS – A CASE STUDY OF KSSIDC".
1.3 REVIEW OF LITERATURE

Since industrial developmental institutions started to play a great role in the industrialization of the country, a number of studies have been made to evaluate the performance of such institutions. The literature available on the evaluation or performance of the industrial development institutions and financial institutions so far covered the growth and development and financial performance. A selected list is chosen to provide an integrated review of the varied aspects of the performance of industrial development institutions.

Goyal\(^1\) (1974) in his book *Financial Institutions and Economic Growth* has analyzed the role and performance of agricultural and industrial finance in economic development. He has suggested that financial institutions should strengthen their monitoring system and exercise a close check over the operational performance of loanee concerned.

Sarma Ramakrishna\(^2\) (1982) in his book *Industrial Development of Andhra Pradesh* studied the role of Andhra Pradesh Industrial Development Corporation, State Financial Corporation and Small-Scale Industries Development and Industrial Infrastructure Corporation in the industrial development of the State. The major findings which, he made and pointed out that the experience of the last few years has shown that in spite of the massive financial assistance from public financial institutions, the corporate sector continues to be sick.
Bala\(^3\) (1984) author studied on *Management of Small-Scale Industries*, highlighted the role of various promotional undertakings in developing the industrial enterprises while examining the performance of public finance corporations. She has concluded that there is a big gap between loans sanctioned and loans disbursed, especially in case of small-scale industries.

Appa Rao and Sujatha\(^4\) (1985) carried out a study – *Recovery Performance of SFCs: An Analysis* and expressed that though quantitatively and qualitatively the operations of SFCs are found satisfactory, they have not been able to achieve the goals. The industrial units take loans but are not repaying it properly because of some genuine reasons. It is found in his study that no proper inspection and monitoring system in the SFCs to tackle the problem faced.

Naik G.B.\(^5\) (1986) carried out a research work in four districts of northern Karnataka covering 8 industrial estates. The study aimed at the analysis of the working of industrial estates with a view to bring out the highlights of the estates. It is found in the study that the estates in Hubli and Belgaum have all the signs of maturity though much needs to be done to bring them up to estates working in Bangalore. Much more needs to be done in the remaining estates, as they are located in backward districts, he suggested.

Kuchal S.C.\(^6\) (1987) in his book entitled *Industrial Economy of India*, analysed the role of financial corporations in industrialization of
the economy. He highlighted the fact that lack of proper project appraisal, marketing intelligence and survey, implementation of projects regular monitoring and follow up etc. are the factors leading to march discussion of the problem of industrial sickness.

Gupta S.C.7 (1987) in his study on Institutional Financing and Industrial Growth, discussed the details about capital structuring and lending norms of development banks like IDBI, IFCI and ICICI. He has also analyzed the capital structure policies that are adopted by these development banks and implication of the same on the available profitability of the organizations.

Mehta Anil8 (1987) in his study Organization and Working of Industrial Estates, analyzed the genesis of industrial estates and measured that the programmes of estates have not only been launched successfully in the industrially advanced countries like USA, UK, Singapur. But also to the developing countries like Argentina, Equador, Iran, Malyasia, Nepal, Pakistan, Senegal, Sri Lanka and Turkey and in many other counties. Highlighting the problems faced by the industrial estates that the industrial estates have been facing some of the difficulties, like transportation of goods through railway and suggested that facilities like post office, telephone and banks were satisfactory in industrial estates but there were some areas where the concerned authorities would have to pay more attention to such items as street
lights, cleanliness of roads and drainage system etc. in the study area of Rajasthan State.

Baruah H.K.\textsuperscript{9} (1990), in his study of entrepreneurship development opined that different variables entering into entrepreneurship were not fully developed in backward regions and the basis of entrepreneurship development programmes were not known to the persons who were interested in the profession. The author also hinted the failure of institutional support system.

Dangwal and Negi\textsuperscript{10} (1992) in their research study entitled \textit{Institutional Financing and Industrialization of Garhwal Region}, reveals that the financial assistance sanctioned covered a wide range of industries. Their study highlights that assistance to backward areas has not been achieved by the financial corporations. However, the hotel industry has been given special attention by the financial corporations owing to region’s potential for tourism and pilgrimage, they concluded.

Bhatia\textsuperscript{11} (1992) in his study \textit{Role of Public Sector in Industrialization}, analyzed the role of various industrial undertakings of Punjab Government. The study reveals that a purpose-wise analysis of the assistance sanctioned and disbursed by the PFC is not in a position to take care of rehabilitation, modernization and diversification. Also, they have been seriously neglected even though they require attention in the modern context.
Sujit Sikidar\textsuperscript{12} (1993) of Gauhati University on the research topic entitled \textit{A Study of Working State Financial Corporation}, analyzed that cost of funds to State Financial Corporation is increasing and because of this profits earned by FSCs are coming down. Added to this, it is revealed that SFCs are suffering from the drawbacks like more political interference with regard to allocating of term loans to various entrepreneurs, nepotism are also observed in the SFCs which are the hurdles of the success of the SFCs.

Leelavati\textsuperscript{13} (1994), conducted a study on the role of industrial estates and evaluated the growth and progress of industrial estates under Five-Year Plan period in the State of Karnataka. It is highlighted in the study that instead of increasing either the number of estates or sheds, there is a need to equip them with the infrastructural facilities, which would contribute to the success of industrial estate programmes.

Eresi K.\textsuperscript{14} (1993) in his study on \textit{Working Capital Requirement of Small-Scale Industries}, highlighted that financial corporations have to adopt and offer new financial services to all the corporate industries, which are assisted by the financial institutions.

Arunkumar A.V.\textsuperscript{15} (1996), carried out a study and reveals that Bangalore is the main concentration point of Karnataka and the pattern is almost the same as that for large scale industries. The study concludes the need for some policies which would be helpful in the diversification of the industrial sector to other districts of the State.
Poojari Chandra M.16 (1996), in his study in Dakshina Kannada District observed that the performance of the industries in terms of the number of units, capital employed and employment creation. He found that the employment generated by the sector in the district was better when compared to the State and national averages. Further, he stated that the intra-district spread of the industries due to the support of the industrial development corporations and concludes that the programme of supporting more and more industries, if implemented properly the promised ideological solution of liberalization would be fruitful.

Shankaraiah K.17 (1999) conducted a study on *Performance Evaluation of Industrial Development Institutions - A Study on A.P. Industrial Development Corporation*. The study reveals that the A.P. Industrial Development Corporation has played a great role in the industrialization of the State. They study focusing attention on the aspects of industrial development like sectoral and regional dimensions, evaluates the industrial development and stressed that the regional dimension of industrial development has been engaging serious attention of planners.

Prabhat18 (1999), in his research finds the problems of industries such as lack of access to capital market, inadequate working capital, venture capital in its infancy, coordination of support services etc. The author concludes that the entrepreneurs face problems which hinder effective availability of assistance under various government programmes.
Desai Vasant\textsuperscript{19} (2000), in his comprehensive study on entrepreneurial development in relation to small-scale industries provided a scholarly analysis on the subject with a backdrop of the Indian socio-economic scenario. Highlighting the policies to be formulated in developing the industries, the author traced on the role of industrial development institutions and a need to support these institutions.

Krishnamurthy and John\textsuperscript{20} (2001) pointed out in their study that the small-scale industries in India are facing threats for the survival, as a result of severe competition from the multi-national companies. The author suggested that India along with other developing countries should convince the WTO insisting the need for retention of quantitative restrictions and other trade barriers.

Thus, a brief survey of the existing literature on the performance of the industrial development corporations and impact on the industrialization indicates that a number of comprehensive an intensive studies have been undertaken by different researchers and institutions at all India level. However, unlike other areas of the industrial development, the industrial development corporations did not able to draw the attention of researchers to any noticeable extent. Hence, there is a necessity of a comprehensive study on one of the industrial development corporations on its overall performance evaluation in the State.
1.4 OBJECTIVES OF THE STUDY

The research study aims at evaluating overall performance relating to Industrial Development Corporations of India in general and performance evaluation of KSSIDC in particular. Performance evaluation is the process of evaluating the operational as well as financial performance of the Corporation. However, the main objectives of the study are:

1. To review the growth of Industrial Development Institutions in India in general and Karnataka in particular.
2. To study the profile of the KSSIDC and examine the origin, growth and pattern of management.
3. To evaluate the performance of KSSIDC and its maintenance of industrial estates.
4. To evaluate the performance of KSSIDC with reference to procurement and distribution of industrial raw materials.
5. To analyze financial performance of KSSIDC.
6. To suggest measures for changes and improvement based on the findings of the study.
1.5 NEED FOR THE STUDY

India faces several problems like large population, unemployment, imbalance in distribution of income and means of production. Corporations were established to create employment opportunities to reduce imbalances and to play a major role in the development of industrial infrastructure and overall advancement of the nation. These industrial development corporations pave way for a rapid growth of industrialization in the country. The Government has given priority in developing these corporations so that the economic objectives could be fulfilled. Under the circumstance, a need was felt by the researcher to evaluate the performance of the KSSIDC. This study attempts to examine the contribution and the role played by one of these corporations namely the Karnataka State Small Industrial Development Corporation (KSSIDC).

The study provides an insight into the process of industrialization period. Secondly, an effort is made to trace policy of KSSIDC on its promoted units for speedy industrialization for the period under study. Finally, the information relevant to the activities of the Corporation is analyzed to know how the Corporation is successful in fulfilling the objectives for which it was created, i.e., (1) establishment of industrial estates (2) procurement and distribution of raw material. However, the present study is different from the earlier research works. It lays
emphasis on the extent of change brought about in the liberalization policy.

1.6 RESEARCH METHODOLOGY AND DATA COLLECTION

This is a micro study of the performance evaluation of industrial development corporations. It attempts to evaluate the performance of the Corporation in establishing industrial estates and also procurement and distribution of raw materials towards industrialization. The research study also attempts to analyze and interpret the financial performance and operations by employing accounting and financial techniques. The data from published source is the basis for the research work. For the purpose of the data analysis, simple mathematical and statistical techniques such as percentage, ratios, central tendencies etc. were used. Application specific computer software has also been used for graphical presentation of data wherever found appropriate.

Among the statistical tools applied, correlation analysis is used to measure the degree of association between two variables. To determine the exact degree of correlation and direction of correlation, Karl Pearson's method is used where co-efficient of correlation is usually designated by the letter r and the formula of which is:

\[ r = \frac{\Sigma xy}{N\sigma_x \sigma_y} \]

\[ r = \frac{\Sigma xy}{\sqrt{\Sigma x^2 \Sigma y^2}} \]
Wherein, $x$ stands for the deviations of the individual items of the subject from their mean, $y$ for the deviation of the individual items of the relative from their mean, $N$ for the number of pairs of items, $\sigma_x$ for the standard deviation of $x$, and $\sigma_y$ for the standard deviation of $y$.

The Chi-square ($x^2$-Test) is also used to know whether a given difference between actual and expectation has been caused by a change or whether it has resulted because of the inadequacy of the theory to fit the observed facts by using the formula:

$$x^2 = \frac{\sum (O-E)^2}{E}$$

Where, $O$ stands for observed frequency and $E$ stands for expected frequency. The degrees of freedom which is denoted by letter $v$, would be when a $p \times q$ table is considered; then,

$$v = pq - (p+q-1) = (p-1)(q-1)$$

So that the result could be obtained keeping the fact that the cell frequencies in the first $(p-1)$ columns and $(q-1)$ rows can be determined.

For the purpose of evaluating the performance of KSSIDC, Annual Reports, Management Information Reports and other published data of the Corporation were used for the study which give a host of economic information. The data were also collected from the published documents of the Central Government and State Government. The other relevant research work, books, magazines, expert committee reports, proceedings
of various conferences held around the world were also used for the study.

1.7 PERIOD OF THE STUDY

The period covered in the study is 10 years, i.e., from 1992-93 to 2002-03. However, whenever data is not available for all the 10 years, 5 years published data of the Corporation in the form of MIS reports is covered and studied accordingly.

1.8 STUDY AREA

The present study covers all the districts of Karnataka as a study area taking into account all the zone areas wherever the KSSIDC extends its operations. The area spreads into three zones, namely, Zone 1 – Bangalore, Tumkur and Harihar; Zone 2 – Hubli, Gulbarga and Bellary; Zone 3 – Mysore, Shimoga and Mangalore.

1.9 SCOPE AND LIMITATION OF THE STUDY

The study is limited by the availability of information. The area that can be covered in the study of performance evaluation of KSSIDC is vast and hence it is limited to operational performance, promotional activities and financial performance of KSSIDC. Ratio analysis used for the study though is simple to calculate and easy to understand, do not provide exact answer to financial problems. There is always a question of judgement as to what significance should be given to figures. The
study finds the following shortcomings while evaluating the data of the Corporation:

1. Due to lack of industry average, it is difficult to present the Corporation's performance. Corporation’s coverage on a single would not be able to cover everything.

2. Based on the past performance, it is difficult to make future estimates and also the same happen to be untrue.

3. Arithmetical window-dressing is possible and the Corporation may be successful in concealing the real position.

4. The period covered for the study is only ten years.

5. It is difficult to determine the adoptable standard of costs and the ratios are calculated from the historical data.

1.10 ORGANIZATION OF THE STUDY.

The study is divided into seven chapters.

First Chapter deals with a brief introduction of the industrial development and its significance to a country. This Chapter also includes a brief explanation about the objectives of the study, review of existing literature on the subject, methodology, need for the study followed by the scope and limitations of the study.

The Second Chapter provides a detailed description of the growth of industrial development institutions in India. It covers outlines on the
need and relevance of such developmental institutions and brief
description about the individual industrial developmental institutions.

The Third Chapter highlights a detailed profile of the KSSIDC by
providing its origin, financial structure, vision, organization structure,
pattern of management and its impact on the industrial growth.

The Fourth Chapter is devoted to the study on establishment of
industrial estates by the Corporation. This also covers the details of
industrial estates and sheds established in Karnataka and studies
impact on the industrial development.

The Fifth Chapter studies the procurement and distribution of
industrial raw materials in the State. It covers a detailed study of the
various raw materials being procured and distributed by the KSSIDC.

The Sixth Chapter deals with the evaluation of financial
performance of the Corporation, particularly evaluating the working
capital and financial strength. Ratio analysis of the financial results has
also been carried out in the Chapter.

The Seventh Chapter covers major findings and suggestions for
improvement of the performance of the Corporation. The Chapter is
followed by a detailed bibliography, questionnaire and appendices used
for the research study.
REFERENCES


5. Naik GB., Working of Industrial Estates in Karnataka, Ph.D. degree awarded by the Karnatak University, Dharwad, 1986.


