CHAPTER - I

Introduction and Design of the Study
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1.0 INTRODUCTION

Cottage industry or home industry means the manufacturing of goods at home by hands, with small capital and on a small scale by the members of a family. While products and services created by cottage industry are often unique and distinctive given the fact that they are usually not mass-produced, producers in this sector often face numerous disadvantages when trying to compete with much larger factory-based companies. Cottage industry is a concentrated form of micro enterprises where the production of goods takes place in the houses of the cottage entrepreneurs and the workforce include the members of the family. The equipments used to generate products are not the hi-tech ones but generally those which are used at homes. Cottage industry is generally unorganized in character and falls under the category of micro enterprises. They produce consumable products through the use of conventional methods.

Cottage industry is often characterized by its enormous potential for employment generation and the person getting employed is basically regarded as a self-employed one. It has been empirically found out that cottage industry has given economic independence to the women in the developing as well as developed countries. Cottage industries involve all the family members’ contribution for the development of the family.

Cottage industries occupy an important place in the economy of India. India is a predominantly agricultural country. About eighty per cent of our country’s population
depends on agriculture. In India agriculture can be termed the largest and the most
important industry. Agriculture is a seasonal industry which does not provide any work
to the agriculturists for about three to four months in a year. The women and the old
people are without any useful employment almost throughout the year. Cottage
industries can provide them some gainful employment and add to their income. They
can increase the total production in the country as well. This is the age of machines.
Mechanization is the order of the day all over the world. But in an underdeveloped and
agricultural country like India, the importance of cottage industries cannot be over-
emphasised. Even Mahatma Gandhi strongly recommended the development and
expansion of cottage industries in India. He said, “I can have no consideration for
machinery which is meant to enrich the few at the expense of many.” According to
him, “Mechanization is good when the hands are too few for the work intended to be
accomplished. It is an evil when there are more hands than required for work as is the
case in India. The problem is how to utilise the idle hours of teaming million
inhabitants of our villages which are equal to the working days of six months in a
year.”

Cottage industries are of special importance because they can be carried on
with the help of the members of the family. They do not require large premises, huge
machines and great investment. They are labour intensive. The greatest advantage of
such industries is that even the women and the old in the family can usefully utilise
their leisure. They not only increase the income of the family but also reduce
unemployment and thus raise the standard of living of the members of the family. In
olden times, India had fairly developed cottage industries. The commodities produced
in these industries were famous for their beauty, art and delicacy. Every village in India
was a centre of these industries. But during the British rule these industries received no
protection, so they were ousted by large industries. After the attainment of independence our national government has paid sufficient attention to the development of these industries. The problem of unemployment has assumed dangerous disease in India. Eminent economists have expressed the view that present problem of unemployment can be solved by cottage industries alone and not by large scale industries. Cottage industries have great potential to solve the problem of unemployment and also to help in the equitable distribution of wealth. There is no denying the fact that big industries increase the level of production but a major part of the profit goes into the pockets of big industrialists, resulting in wide disparity in the distribution of wealth of the nation. The cottage industries prevent the evils of concentration of industries. Big industries can be located only in certain parts of the country where the necessary infrastructure already exists, whereas cottage industries can be carried on in every village. Big industries tend to create regional imbalance but on the other hand cottage industries reduce regional imbalance in the field of economic activities.

Cottage industries in India are faced with a number of difficulties. Our village artisans are mostly illiterate and poor. They have been employing traditional methods and techniques of production. But of late they have taken to new and improved methods as a result of expansion of education and awareness among them. Government is also helping them by extending training facilities. Shortage of raw materials and difficulty in marketing the finished goods at reasonable prices are other two great obstacles in the development of cottage industries this results in hardships and exploitation of the artisans. The raw material becomes costlier in remote villages and absence of marketing organization results in disincentive to greater production. These apart, lack of improved equipment, shortage of power supply, ignorance of new designs
are other handicaps suffered by the artisans of these industries. And lastly, lack of finances poses a great problem to those engaged in these industries.

Concerted efforts are being made by our government for the development and expansion of these industries and some improvement has been recorded in the matter. The schemes of rural electrification are being implemented to make power available to these industries. Cooperative marketing societies are being organised to help these industries in procurement of raw materials and sale of their product at a reasonable price. New roads constructed in the rural areas have provided transport facilities to them. Government is exploring foreign markets for the goods produced by these industries. Arrangements for credit facilities on nominal interest have been made for them. In the purchase of government supplies, priority is given to these industries. The government is, thus, making serious efforts to encourage and develop them.

The Union Governments has set up Khadi and Village Industries Commission to help these industries. Village industries include processing of cereals and pulses, oil, gur and khandsari, palm gur, non-edible oils and soap, bee keeping, handmade paper, village pottery, carpentry, and black-smithy. These industries depend on local raw materials and mainly cater to the requirements of the local population. The Khadi and Village Industries Commission, which is responsible for the development of these industries, provides financial assistance to the registered institutional cooperative societies, State Khadi and Village Industries Board and other village industries which come under its purview. The strategy of economic development evolved by the Planning Commission recognises the need for cottage industries. An important role has been assigned to khadi and cottage industries. In fact it can be said that economic development in our country cannot reach a take-off stage until the vicious circle of
poverty is broken by creating avenues of employment for 80 per cent of our population in the rural sector, whose only hope is cottage industry.

In the Industrial Policy Statement made in Parliament in December 1977, it was made clear that Government would introduce legislative measure to ensure adequate recognition to cottage industries, which are capable of providing employment to a large number of persons in the rural sector. As a result of this shift in the attitude of the government every district will be provided with an agency to look after the needs of cottage industries in the district. This district agency would arrange for machinery, raw material, credit facilities, marketing, research and expansion of these industries. The policy statement hoped that the financial institutions would reserve a portion of their total advances for the cottage industries. The government departments and public undertakings have been instructed to make their purchases from these industries on a priority basis.

The present study is about the growth of cottage industries in Tirunelveli district. The district comprises with large, medium, small and micro level industries. Tirunelveli district has enormous scope and resources for many micro enterprises. There are number of medium and large scale enterprises in the district such as Cement, Cotton yarn, Calcium carbide, Sugar, Cotton seed oil, Printing papers and flour Mill etc. The major cottage and village industries functioning in the district are Handloom, Poultry farming, Jaggary production, Mat weaving, Basket making, Palmirah products, Country bricks, Tiles making, Blacksmithing, Carpentry, Metal and allied works, Terracota products, Lacquerware and Wet Grinding Stone etc. Though all the categories of industries contribute equally to the uplift of the nation, being the employer of the masses, cottage, village and small scale enterprises contribute much more than
the others. Various incentives and assistance have been provided by the Government to promote them. The industrial sector of Tirunelveli District has played a very important role in the socio-economic development of the district during the past 50 years. It has significantly contributed to the overall growth in terms of the employment generation and exports. The study of this kind is of major interest to historians, sociologists, economists and other scholars today.

1.1 STATEMENT OF THE PROBLEM

Many nations both developed and developing exteriorised that the cottage industry is a useful vehicle for growth, in the latter for the creation of new employment opportunities on a wide scale in shortest possible time. Recognizing the important role that cottage industries sector play in the national economy, both the central and state government have taken active steps to develop, promote and foster their growth. Some of these initiatives have been effective but most of the problems of cottage industries sector still continue to affect the sector. They can play their rightful role only if they are on sound lines. Cottage industries are suffering from a number of problems such as lack of sufficient capital, low access to markets, low technical and educational training, low levels of productivity and wages, low access to formal credit and high price of raw materials etc. some are more or less common to a wide range of industries while others have particular relevance to a group of industries located in rural and backward areas of the country.

The cottage industries plays dominant role in the economic development of the country as a whole, moreover the study area (Tirunelveli district) is well known for more number of cottage industries. Because of the significance of cottage industries the government has provided number of incentives and schemes for the development of
these industries to generate more employment and growth in the industry. But they face number of problems while running their business unit, especially from their bigger counter parts like small and medium scale enterprises. Therefore the present study aims at analysing the growth of cottage industries and the problems faced by them.

1.2 OBJECTIVES OF THE STUDY

The following objectives have been developed to study the growth of cottage industries in Tirunelveli district.

- To study the cottage industries in the study area.
- To study the socio-economic conditions of cottage entrepreneurs.
- To identify the factors influencing the growth of cottage industries.
- To examine the problems faced by the entrepreneurs of the cottage industries.
- To assess the growth of cottage industries.
- To summarise the findings and suggestions based on the analysis and interpretations of the study.

1.3 SCOPE OF THE STUDY

In order to improve the existing situation of the cottage business units engaged in the economic activity within a given geographical area, it is of much importance to study the current status in terms of socio-economic conditions of cottage business entrepreneurs and steps to be taken to face challenges in the newly emerging scenario. Moreover, it is also essential to study the cottage entrepreneurs skills which provide them self-persistence and concern for quality work. The present study analyse the growth of cottage industries with special reference to Tirunelveli district. An attempt
has been made to analyse the factors influencing the growth, problems faced by the entrepreneurs of the cottage industries and the level of growth of cottage industries in the last five years. This study will also render suitable solutions to overcome the problems faced by the cottage business entrepreneurs to accelerate the growth of cottage business units in future.

1.4 CHOICE OF THE STUDY AREA

Tirunelveli is one of the biggest districts in Tamilnadu with an area of 11434 square kilometers. As most part of the district is in a dry belt caused by lack of water supply, it could not be brought under cultivation. But, as the district is rich in minerals like limestone and garment that are many large scale, small scale and cottage and handicraft industries in the district. Hence the Tirunelveli district was purposively selected as study area by the researcher for the following reasons:

➢ Through the preliminary survey in the study area the researcher came to understand that more number of cottage business units are functioning all over the districts and moreover, the cottage business units are thriving amidst stiff competition from their bigger counterparts.

➢ Familiarity to the culture, local contact and infrastructure facilities available would help the researcher to develop the good rapport with the respondents and hence, the better and valid response could be received.

1.5 PERIOD OF STUDY

This study was conducted from May 2011 to March 2014. The data relevant to the study was collected from the respondents during the period 2012-13.
1.6 OPERATIONAL DEFINITIONS

1.6.1 Cottage Industry (or) Cottage Business Units

Cottage industry means an industry where the creation of products and services is home-based, rather than factory-based. While products and services created by cottage industry are often unique and distinctive given the fact that they are usually not mass-produced, producers in this sector often face numerous disadvantages when trying to compete with much larger factory-based companies.

The cottage industry is an industry, mainly manufacturing, which involves many producers working part times from their homes. The term was initially used to refer to workers who were engaged in tasks like lace making, sewing or household manufacturing.

1.6.2 Cottage Entrepreneurs

A cottage entrepreneur is a person who organizes and manages a cottage business unit, assuming the risk for the sake of profit.

1.6.3 Manufacturing Business Unit

The business unit which involves in the process of converting raw materials, components, or parts into finished goods that meet a customer's expectations or specifications. Manufacturing commonly employs a man-machine setup with division of labor in a large scale production.

1.6.4 Trading Business Unit

Trading business units are businesses working with different kinds of products which are sold for consumer, business or government purposes. Trading units buy a
specialized range of products, maintain a stock or a shop, and deliver products to customers. They connect buyers and sellers within the same or different countries but does not get involved in the owning or storing of merchandise. A trading company is compensated by the seller usually with a sales commission.

1.6.5 Service Business Units

A commercial enterprise that provides work performed in an expert manner by an individual or team for the benefit of its customers. The typical service business provides intangible products, such as accounting, banking, consulting, cleaning, landscaping, education, insurance, treatment, and transportation services. Service business units are also involved in retail, transport, distribution, food services, as well as other service-dominated businesses. It is also called service sector, tertiary sector of industry.

1.7 SAMPLING TECHNIQUE

The study is based on proportionate stratified random sampling method. In Tirunelveli district totally 19,630 cottage business units were registered as on 31st March, 2012. All those registered cottage business units were classified under three broad categories namely Manufacturing, Trading and Service. Out of 19,630 cottage business units registered in the study area, 5,793 are manufacturing units, 5480 are trading units and 8357 are service units. The sample size of 589 respondents consists of 3 per cent of cottage business units from manufacturing, trading and service sector units were selected for the purpose of the study. Out of 589 respondents interviewed, 23 interview schedules were rejected due to the inconsistency in the data given by the respondents. The different categories of cottage business units were identified with the
help of information received from District Industries Centre and Khadi and Village Industries Board, Tirunelveli.

1.8 COLLECTION OF DATA

The present study was based on both primary and secondary data. Interview schedule was used to collect the primary data from the sample respondents. To elicit the details of cottage business units, a well-structured interview schedule has been prepared after consulting the experts in the field. For this, a pilot study was made and with that response, final interview schedule was prepared to collect the information required for the study. Primary data was collected from the entrepreneurs of the cottage industries from the study area. The relevant secondary data were collected from the records and registers of various departments. The information available in the website was also collected for the study. In addition to this secondary data which are relevant to the study were collected from various books, magazines and from other published materials.

1.9 HYPOTHESES

➢ There is no significant relationship between the factors leading to start cottage business units and the type of cottage industry.

➢ There is no impact of factors leading to start cottage business units on the initial investment made by the different types of cottage entrepreneurs.

➢ There is no impact of entrepreneurial skills on the success of different types of cottage industries.
There is no significant relationship between the factors influencing the growth of cottage business units and the growth of different types of cottage industries.

There is no impact of problems faced by the cottage entrepreneurs on the performance of the different types of cottage industries.

1.10 TOOLS FOR ANALYSIS

The collected data were analysed with the help of proper statistical tools. The tools employed are percentage analysis, analysis of variance, multiple regression, index number and factor analysis to interpret the data and to arrive at relevant inferences.

- The respondents view on factors motivate to start cottage business unit has been examined with the help of one way analysis of variance (ANOVA).

- The degree of influence of motivating factors on the initial investment made on cottage business units analysed with the help of multiple regression analysis.

The fitted regression model is:

\[ y = a + b_1x_1 + b_2x_2 + \ldots + b_6x_6 + e \]

Whereas

- \( y \) = Initial investment on the cottage unit
- \( x_1 \) = Score on skills and experiences
- \( x_2 \) = Score on personal factors
- \( x_3 \) = Score on family factors
- \( x_4 \) = Score on economic factors
The mean score and one way of analysis of variance (ANNOVA) has been adopted to measure important entrepreneurial skill among the respondents.

Reliability and validity of variables in entrepreneurial skill among the respondents analysed with the help of confirmatory factor analysis and the overall reliability is tested with the help of cronbach alpha

The level of various entrepreneurial skill among the respondents is measured with the help of entrepreneurial skill index.

It is computed by

\[ ESI = \frac{\sum_{i=1}^{n} SESV_i}{\sum_{i=1}^{n} MSESV_i} \times 100 \]

Whereas,

<table>
<thead>
<tr>
<th>ESI</th>
<th>- Entreprenurial Skill Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>SESV</td>
<td>- Score on Entreprenurial Skill Variable</td>
</tr>
<tr>
<td>MSESV</td>
<td>- Maximum Score on Entreprenurial Skill Variable</td>
</tr>
<tr>
<td>( i = 1 \ldots n )</td>
<td>- Number of Variables included in Entreprenurial Skill</td>
</tr>
</tbody>
</table>
The impact of entrepreneurial skill on the overall success of cottage industries examined with the help of multiple regression analysis.

The fitted regression model is:

\[ y = a + b_1x_1 + b_2x_2 + \ldots + b_8x_8 + e \]

Whereas

\( y \) - Means of profit attained by the cottage units during the study period
\( x_1 \) - Score on group skill index among the respondents
\( x_2 \) - Score on business management index among the respondents
\( x_3 \) - Score on enterprise skill index among the respondents
\( x_4 \) - Score on behavioural skill index among the respondents
\( x_5 \) - Score on communication skill index among the respondents
\( x_6 \) - Score on soft skill index among the respondents
\( x_7 \) - Score on innovative skill index among the respondents
\( x_8 \) - Score on risk bearing skill index among the respondents
\( b_1, b_2, \ldots b_8 \) - Regression coefficient of independent variables
\( a \) - Intercept and
\( e \) - Error term

Factors influence the growth of cottage industries have been examined with the help of exploratory factor analysis.

The reliability and validity of variable in factors influencing growth of cottage industries examine with the help of confirmatory factor analysis and the overall reliability of variables have been estimated with the help of cronbach alpha.
The owners’ views on factors influencing growth of cottage business unit have been computed through mean score and significant difference regarding the view on influencing factor among the three groups of respondents has been administered with the help of one way analysis of variance (ANNOVA).

The significant difference among the three groups of respondents regarding their views on problems faced by them has been measured with the help of one way analysis of variance (ANNOVA).

The levels of entrepreneurial problems faced by the respondents in the business have been measured with the help of problem index. It is computed by

\[
PI = \frac{\sum_{i=1}^{n} SPV_i}{\sum_{i=1}^{n} MSPV_i} \times 100
\]

Whereas

\begin{align*}
SMPV & \quad - \quad \text{Score on the Problem Variables} \\
MSMPV & \quad - \quad \text{Maximum Score on the Problem Variables} \\
i = 1 \ldots n & \quad - \quad \text{Number of variables in the Problems}
\end{align*}

The impact of problem index on the performance of cottage business unit is measured with the help of multiple regressions. The fitted regression model is

\[
y = a + b_1x_1 + b_2x_2 + \ldots + b_{10}x_{10} + e
\]
Whereas

\[ y = \text{Net profit earned by the cottage units in 2011-2012} \]
\[ x_1 = \text{Score on marketing problem index among the owners} \]
\[ x_2 = \text{Score on financial problem index among the owners} \]
\[ x_3 = \text{Score on raw materials problem index among the owners} \]
\[ x_4 = \text{Score on labour problem index among the owners} \]
\[ x_5 = \text{Score on power problem index among the owners} \]
\[ x_6 = \text{Score on entrepreneurial problem index among the owners} \]
\[ x_7 = \text{Score on general problem index among the owners} \]
\[ x_8 = \text{Score on knowledge problem index among the owners} \]
\[ x_9 = \text{Score on social problem index among the owners} \]
\[ x_{10} = \text{Score on psychological problem index among the owners} \]
\[ b_1, b_2, \ldots, b_{10} = \text{Regression coefficient of independent variables} \]
\[ a = \text{Intercept and} \]
\[ e = \text{Error term} \]

The growth rate of cottage industries in the past five years is computed with the help of linear regression model. The fitted model is

\[ y = a + bx + e \]

Whereas

\[ y = \text{dependent variable (growth parameters)} \]
\[ x = \text{time period} \]
\[ b = \text{annual growth rate} \]
\[ a = \text{intercept and} \]
\[ e = \text{error term} \]
The annual and compound growth of cottage industry in the last five years is computed with the help of regression analysis.

The compound growth rate is computed by

\[ y = a t^b \]

Whereas

\[ y = \text{Performance variable} \]
\[ a = \text{Constant} \]
\[ b = \text{Coefficient} \]
\[ t = \text{Time period} \]

Which is converted into semi log form

\[ y = \log a + b \log t \]
\[ y = A + b t \]

Compound growth rate = \((\text{Antilog of } b - 1) \times 100\).

1.11 LIMITATIONS

- This study was conducted in Tirunelveli district among the cottage business units so the findings may not be applicable to whole of Tamil Nadu.

- The data given by the respondents regarding the skills, problems faced by them, finance, sales, production and profit etc. may not be accurate as the respondents gave all the data recalling from their memory.
The researcher considered the cottage business units registered with the District industries Centre and Khadi Village Industries, Tirunelveli for the purpose of this study. For assessing the growth of cottage industries in Tirunelveli district data relating to five years starting from 2007-08 to 2011-12 were included for the analysis.

1.12 CHAPTERISATION

Chapter one deals with introduction, significance of the study, statement of the problem, objectives of the study, scope of the study, hypotheses of the study, methodology of the study and limitations of the study.

Chapter two presents the review of literature relating to the study. The review of literature related to cottage industry is classified and grouped under three broad categories namely, growth of cottage industry, role of cottage industries on employment generation and problems of cottage industry.

The third chapter deals with the profile of the study area and an overview of cottage industries. It consists details regarding history of the district, resources, agriculture, education, industrial scenario of the district, important cottage industries in the district, an overview of cottage industry, importance of cottage industry, government policy initiatives, major cottage industries in India, institutions working for the benefit of cottage industry, problems of cottage industry and steps taken by government to overcome those problems of cottage industries.

Chapter four presents the socio-economic Profile of the cottage business entrepreneurs, Profile of the cottage business unit, factors leading to start cottage industries and impact of factors on the initial investment on cottage business units in the Tirunelveli district.
Chapter five contains details about the entrepreneurial skills of the cottage entrepreneurs, impact of entrepreneurial skills on the overall success of cottage business units, factors influencing growth of the cottage business units, problems of cottage business units and impact of problems on the performance of cottage business units. It analyses various skills and problems of the owners of the cottage business units in the Tirunelveli district.

Chapter six presents details about growth of cottage business units in Tirunelveli district in the last five years. It consist of details regarding total number of cottage business units registered in the district, raw material consumption, production, credit sales, cash sales, sundry debtors, sundry creditors and net profit etc.

Chapter seven presents the overall summary of findings, suggestions and conclusions of the study. It consist of findings relating to socio-economic conditions of the cottage entrepreneurs, findings about cottage industries, factors influencing the growth of cottage industries, findings about problems of cottage industries, findings about the level of growth of cottage industries, suggestions to the cottage entrepreneurs, suggestions to the supporting institutions, suggestions to the government and conclusion.

1.13 CONCLUSION

This chapter helps to know the overall design of the study. It consists of objectives of the study, scope of the study, statement of problem, period of the study, methodology of the study, operational definitions, hypotheses, tools used for analysis, limitations of the study and chapeterisation.