

Perception of Unit Holders Towards the Benefits of Industrial Cluster Development in the General Engineering Sector

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Abstract

The cluster development approach serves as a crucial strategy for improving the productivity and competitiveness of Micro, Small, and Medium Enterprises (MSMEs). A cluster refers to a group of enterprises situated within a specific geographical region that produce similar goods or services. This proximity facilitates the efficient exchange of information and resources among the units, thereby enhancing their overall performance. This study explores the concept of industrial clusters and examines the perceptions of unit holders regarding the benefits of clustering in the General Engineering Cluster of Malappuram district. Primary data for the research was collected from a sample of sixty units within this cluster. The findings indicate that industrial clustering yields significant advantages for the enterprises involved.

Keywords: Industrial cluster, CFC.

Introduction

The Micro, Small, and Medium Enterprises (MSME) sector has emerged as a dynamic and vital component of the Indian economy. It significantly contributes to the nation's economic development and plays a key role in GDP growth. Additionally, it fosters entrepreneurship and generates extensive employment opportunities with minimal capital investment. MSMEs also support inclusive growth by complementing larger industries. Despite their contributions, MSMEs face numerous challenges such as limited productivity, financial constraints, technological changes, rising competition, infrastructure gaps, and regulatory hurdles. The cluster development approach offers a potential solution to these issues by enhancing competitiveness and profitability. In response, the Ministry of MSME, Government of India, has implemented the Industrial Cluster Development programme under the MSE-CDP scheme to address problems related to economies of scale, weak capital base, competitiveness, and slow decision-making. Originally launched by UNIDO in 1995 based on Italy's experience, cluster development was adopted by the Indian government in 1996 and by Kerala in 2003 as part of its industrial policy. UNIDO's programmes strongly emphasize the importance of cluster development. Nadvi & Barrientos (2004) examined the link between industrial clusters and poverty alleviation. Their study found that small firms benefit from networking and cooperation within the cluster, which improves their performance, increases employment and income, and positively impacts the local economy.

Kaur (2009) investigated the cluster approach for export promotion and identified key factors such as external economies, collective efficiency, trust, competition, and cooperation as critical to cluster development and export growth.

Jirčiková (2010) analyzed clusters as tools for enhancing company performance. The study identified factors influencing cluster success and shared best practices from both Czech and international clusters. Bindu V.V (2012) focused on the cluster model as a strategic approach for the handloom industry in Kerala. The study assessed the impact of cluster development on

cooperative societies, highlighting improvements in linkage, cooperation, and overall performance following the programme's implementation.

Objectives of the Study

1. To understand the concept of the industrial cluster
2. To analyze unit holders' perceptions of the benefits of industrial clustering

Methodology

The study is based on primary data collected from 80 sample units within the General Engineering Cluster in Malappuram district, selected through simple random sampling. Secondary data was sourced from books, articles, and online resources. The analysis involved calculating mean scores to interpret the data.

Significance

Industrial clusters are designed to support the growth of the MSME sector by addressing challenges such as small operational size, technological limitations, and skill shortages through collaborative efforts. Concentration of units in a specific area accelerates the sharing of best practices and reduces fixed costs by distributing them among many beneficiaries. The General Engineering Cluster in Malappuram operates in line with these objectives, making it relevant to assess unit holders' perceptions of the benefits they experience within this system.

Scope

This study focuses on the General Engineering Cluster located in Malappuram district, which comprises 200 units. A random sample of sixty units was selected for analysis using the lottery method.

Result and Discussion

Industrial Cluster Development Programme

The Cluster Development Programme is being implemented in the Micro, Small, and Medium Enterprises (MSME) sector with the objective of enhancing productivity and efficiency. This initiative seeks to address the requirements of the industry by developing well-defined clusters within specific geographical areas. By grouping units that produce similar goods and services within a particular region, the programme facilitates access to common resources such as raw materials and credit, thereby enabling scale advantages and cost efficiency for participating enterprises.

Meaning of Industrial Clusters

Industrial clustering refers to the phenomenon where firms and other relevant entities co-locate in a specific geographical region and collaborate within a shared functional niche. This often leads to the formation of strong working relationships aimed at improving overall competitiveness. Essentially, an industrial cluster represents a concentration of companies, suppliers, service providers, and institutions that are related by industry and located in close proximity to one another. Such a setup encompasses not only enterprises producing goods and services but also includes suppliers of inputs, buyers, financial institutions, educational and training bodies, as well as governmental and non-governmental organizations. These entities are interconnected through mutual dependencies and synergies, benefiting from factors such as access to specialized labor and suppliers, knowledge spillovers, and competitive pressures that push for enhanced performance. These internal and external linkages also integrate each cluster into the broader economy.

Essential Characteristics of Enterprises in a Cluster

Enterprises within a cluster typically exhibit similarities or complementarities in their production methods. They often adopt comparable levels of technology and marketing strategies, and they rely on common communication channels. Additionally, they tend to serve common markets and share similar skill requirements. Clusters also face mutual challenges and opportunities, which fosters a sense of collective identity and purpose among the members.

Objectives of the Industrial Cluster Development Programme

The primary objectives of the Industrial Cluster Development Programme include supporting the long-term sustainability and growth of Micro and Small Enterprises (MSEs) by addressing collective issues such as technological improvement, skill development, quality enhancement, and market access. The programme also aims to strengthen the capacity of MSEs to engage in collective action through the formation of self-help groups, consortia, and by upgrading industrial associations. Further objectives include the development or enhancement of infrastructure in both new and existing industrial areas or clusters, as well as the establishment of Common Facility Centres (CFCs) for purposes such as product testing, training, raw material storage, effluent treatment, and supplementing production processes.

Benefits of Industrial Clustering

Industrial clusters provide numerous advantages. Operating within a cluster makes doing business easier due to the presence of a wide array of inputs, specialized labor, and supporting services within a short distance. The geographic proximity of cluster participants fosters the exchange of knowledge and information. Moreover, a high level of trust within clusters encourages cooperative investments in common facilities and facilitates smooth business transactions, thereby reducing uncertainties and operational risks. Clusters also promote large-scale operations by allowing a division of labor among the enterprises, thus enabling them to serve extensive markets. Additionally, the presence of a wide variety of suppliers and producers within a cluster lowers consumer search costs and enhances convenience and choice.

Components of the Cluster Development Programme

The Micro and Small Enterprises–Cluster Development Programme (MSE-CDP) has two major components: the establishment of Common Facility Centres (CFCs) and the development of infrastructure.

Common Facility Centres (CFCs) are designed to create tangible assets within industrial areas, such as testing labs, training centers, raw material depots, and other facilities that serve the collective needs of cluster participants. The funding pattern for setting up CFCs varies depending on the total project cost and the location of the cluster. For projects costing between Rs. 5 crore and Rs. 10 crore, the funding pattern is 70% from the Government of India, 20% from the State Government, and 10% from the Special Purpose Vehicle (SPV). For projects between Rs. 10 crore and Rs. 30 crore, the contribution changes to 60% from the Government of India, 20% from the State Government, and 20% from the SPV. In the case of projects located in Aspirational Districts, North Eastern Regions (NER), Hill States, and

island territories, the funding pattern is more favorable. For such projects costing Rs. 5 crore to Rs. 10 crore, the Government of India contributes 80%, the State Government 15%, and the SPV 5%. For projects between Rs. 10 crore and Rs. 30 crore, the contribution is 70% from the central government, 15% from the state government, and 15% from the SPV.

Infrastructure Development (ID) is the second component, which focuses on developing infrastructure in new or existing notified industrial areas. The funding for new infrastructure development projects costing between Rs. 5 crore and Rs. 15 crore is split as 60% from the Government of India and 40% from the State Government. For upgradation of existing infrastructure with a project cost of Rs. 5 crore to Rs. 10 crore, the funding is shared equally between the central and state governments (50% each). In Aspirational Districts, NER, Hill States, and islands, the Government of India provides 70% funding for new infrastructure development projects, while the remaining 30% comes from the State Government. For the upgradation of existing infrastructure in these regions, the funding pattern is 60% from the central government and 40% from the state government.

Cluster development process

Diagnostic Study:

The first step in the process of cluster development is to conduct a diagnostic study. This study aims to depict all the business processes of the cluster units to understand their strengths, weaknesses, threats and opportunities. This helps to suggest remedial measures with a well-drawn action plan as a diagnostic study report.

Analysis of the perception of unit holders towards the benefits of industrial clustering

This study analyses the perception of unit holders in general engineering clusters in the Malappuram district towards the benefits of industrial clustering. The data for the study was collected from sixty general engineering units in this cluster and analyzed the data collected. The result of this analysis is stated in the table below.

Benefits of Industrial clusters

Statements	Mean Score
Easy formation of business	4.08
Helps to overcome the small size of business	4.23
Easy availability of raw material and other inputs	3.92
Easy getting of business information	3.58
Increased co-operative effort	3.63
Helps to better utilisation of available resources	3.27
Avoid shortage of material and human resources	2.45
Helps to utilise new technology and ideas	2.82
Improve the ability to compete in the market	3.30
Reduce the cost of production	3.25
Easy access to customers	2.82
Increase productivity and sales	3.63
Increase profitability	3.27

Easy access in getting govt subsidies and other sanction	2.45
Provide directions to do business	2.82
Provide good infrastructural facilities	3.08
Provide more business opportunities	3.63
Increase employment opportunities	3.27
Increase growth of the region	2.45

The analysis of the mean scores on the benefits of industrial clusters reveals that unit holders perceive clusters as particularly effective in helping overcome the limitations of small-scale operations (mean score 4.23) and facilitating the easy formation of businesses (4.08). Moderate agreement was observed for benefits such as access to raw materials (3.92), increased cooperative effort, business opportunities, and productivity (all 3.63), along with improved market competitiveness (3.30) and better utilization of resources (3.27). However, benefits related to cost reduction, profitability, employment, and infrastructure fall into a neutral category with scores around 3.00–3.30, indicating that while these areas show some promise, they may require further development. Notably, low scores were recorded for benefits like avoiding shortages of materials and human resources, access to government subsidies, regional growth (all 2.45), and utilization of new technology (2.82), suggesting these are the weakest perceived areas. Overall, while industrial clusters are seen as beneficial in enhancing cooperation, scalability, and operational ease, there is a clear need for improvement in technological adoption, infrastructure, policy support, and regional development to maximize their potential.

Conclusion

The industrial cluster approach is a globally accepted concept. The Ministry of Micro, Small, and Medium Enterprises (MSME), Government of India has initiated the Industrial Cluster Development programme under the MSE CDP scheme as a key strategy for enhancing the growth and competencies of MSMEs. This system helps to disseminate information and other resources among units and also develop a linkage with different governments and other agencies. This strengthens the growth of industrial units under the cluster. This study was conducted in the General engineering cluster in the Malappuram district. It analyses the perception of unit holders towards the benefits of industrial clusters. The result of the study describes that the industrial cluster development programme is beneficial to industrial unit holders performing under the industrial cluster.

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