Chapter - 1

INTRODUCTION

Forest is a natural resource which form the main body of the terrestrial ecological system. It is a complete natural resource base, a stock of asset, serving as sources of scarce inputs that can yield utility through production or provision of goods and services. Natural resources are a necessary ingredient of all economic activity. They can be of three types - non-renewable / reproducible and non-expendable. Forest fall under the second and third type. Forest can be naturally or artificially re-established. Forest resource has certain special characteristics. One, it is not possible to clearly distinguish or separate the forest capital and the products to be derived therefrom. There is, therefore, the likelihood of over-exploitation of forest leading to harmful effects. And, two, forest have high level of externalities which are social benefits or costs, outside the market mechanism.

The inter related and multiple roles of forests, covering the whole spectrum of environmental conservation and rational utilisation of forest resource are vital for human welfare and sustainable socio economic development.

Forests can be defined as a plant association, predominantly of trees and other woody vegetation (Society of American Foresters, Forest terminology, Washington, 1958, pg.34)

Considering their nature the value of the contribution of forest resources can be - Use values
which include direct contribution in terms of goods and services and direct contribution to soil formation, watershed conservation, recreation carbon sink capacity and water yield augmentation.

Non use values are of option value which cover the potential future by later generations or by themselves and existence value which is the positive attitude that people place on an asset or resource independent of any use in the present or in the future, like ecological health.

Forest resource provide considerable externalities. They have many ecological and amenity functions such as safe-guarding and productivity, maintaining water quality, facilitating a self sustaining process of nutrient recycling, positive influence on climate and weather patterns, conserving biological and land scape diversity and supporting overall environmental stability.

Contribution of forest can generally be classified as goods and services. Goods are physical objects over which ownership rights can be established. Services are not separate entities over which ownership rights can be established and they cannot be treated separately from their source of production. Forest goods are tangible product and fall under two categories - wood products as timber, industrial wood and fuel wood, and non wood products as gums, resins, edible products, medicinal plant flavours, fragrances and so on. Services as broadly of two types - environmental and recreational. Benefits in the form of wood product are derived through cutting down of trees and can be obtained only once in the life cycle of a tree. Other benefits that
is non-wood and service benefit can be derived uninterrupted as long as resources maintained.

The forest dwellers of the different tribal communities depend primarily on the minor forest products for their sustenance, while the forest based industries depend on the commercially valuable wood. Besides, to the forest dwellers of the tribal population forest is one of the main sources of sustenance. They collect food from the forest, use timber to construct their houses or make different other types of implements, collect fuel wood for cooking, and different other objects from the forest required by them for a variety of purpose.

The forest is a large area supporting not only continuous cover of tree but forms a complex association of shrubs, plants and other forms of animals etc. All of these do not occur accidently but depend on one another for their existence. Forest has a major role in the overall ecological pattern of nature. They protect soil against forces of erosion and provide home for distinctive forms of animal life. Forests are the results of many natural factors as well as imposed by humans. Climate is the most important factor which has direct effect on plants and indirect effect on development of soil by weathering of parent material.

Natural resources determine the course of development and constitute the challenge which may or may not be accepted by the human mind. Forest wealth constitute an essential ingredient of progress. The contribution of trees to the healthy development of living beings is immeasurable.

In ancient time forests were considered sacred and sustained all life-Humans, Wild Life, Birds,
Bees and Butterflies and the destruction of forest meant death knell to the life around.

There had been a wide recognition of the vital role that forests play in the struggle to sustain the world's growing population. Since the end of World War II there has been a wide spread recognition of the degree to which man has devastated the face of this earth. This had led to considerably improved forestry practice in many countries and a serious reexamination of conventional attitudes concerning the use of forests by native people. Many of the problems of modern forestry particularly in tropical and sub tropical countries are related to the effects of primitive people's activities on the forest echo systems of the world. An area of rehabilitation of degraded forest land has been vitiated and forest conservation has achieved in the public consciousness that they have not had previously. Forests are increasingly regarded as a renewable resource with multiple use, rather than as a single use resource. There is greater acceptance of the view that well managed forests on the periphery of great urban areas have a very high socio genetic value.

Natural resources constitute a key factor in the economic development of a country. They are potential wealth and if they are fully exploited and properly utilised, economic development of a country can be accelerated. The connection between the economic development of a country and its natural resources is an important factor in its economic growth. Forests constitute
one of our principal natural resources. They are essential in maintaining environmental stability. They provide raw materials to a number of important industries that contribute to the evolution of sound national economies. Above all forests provide the poorer half of mankind with some of the essentials for survival, fuel for cooking, building materials for shelter, fodder for their livestock and protection for their food crops. The contribution of forestry to development can only be fully realised, however, when forests are effectively managed. A social dimension must be added to the traditional production and protection orientations of forestry activities. Correct perception of the potential and benefits of forests is necessary to device the right frame for its development. For this one has to begin with the elaboration of the picture of its cultural use and potential at present. A better use and a large potential of forests can be realised within the frame work of the existing ownership pattern of forest.

The conservation and economic exploitation of the exhaustible resources and the fuller utilisation of the renewable resources are essential for accelerating the economic growth of a country. Wood is needed for paper, pulp, newsprint, rayon, furniture, matches etc. Wood for construction, plywood and other panels for furniture making, paper board for packing and paper for printing and meeting all source of the basic commodities required in modern life. The industries that manufacture these products form an important part of the world's industrial base. The industries, which are mainly concerned with timber, are heavily concentrated in industrialized
countries. It has been emphasized that forestry represents long term investment possibly attractive to corporations, governments or other long lived institutions, but not to the individual.

The extraction of the forest product is potentially economic operation. Ideally the forest is given minimal subsequent care and clear-cut simple machines. From a single passage once the ground the harvest begins with the safely stored fruits of several years growth. The long run capacity of one-forest lands to produce wood is limited. A limit is set by competing uses of forests and other lands, space, recreation, farming rights, urban and suburban development and so on. Timber values are interpreted by the market place even though the timber market is subject to major imperfections. Again a very high degree of uncertainty is attached to any estimate of future values as a guide to current production decisions. The typical forestry enterprise produces more than one product. Among the major forest based industries are pulps, paper, newsprint, rayon, saw milling, wood panel products, matches, resins and medicinal herbs. These products and forest based industries play an important role in the life and economy of the forest folk who are completely dependent on them. Forests also play some part in earning the foreign exchange for the country. The main export items are teak, rosewood, paper and paperboard etc. In addition to the benefit to the country of foreign exchange there is also the revenue to the government in the form of royalty from the bases of forest products like bamboos or wood to forest based industries. Besides it also provides employment. The use of industrial wood in
tropics is far out weighed by the use of fuel wood by a factor of more than five. Three quarters of the people in developing country rely on wood for cooking and heating, using more than 1500 million cubic meters of wood each year. The extraction of wood for industrial purpose is annually increasing by almost four percent for the world as a whole. But more than 80% of the wood still comes from the developed countries. In contrast 80% of the wood produced in the developing world is used as a source if energy. Sawn wood which is used in construction, furniture making and packaging is the most common processed wood product. The second largest category is wood pulp. The third major industrial use is in the production of wood based panels including plywood, fibre board, particle board and veneer. Forest products other than wood, sometimes referred to as minor forest products are extremely numerous and varied. They include fibres, rubber, and resins, waxes, pharmaceutical and cosmetic products and ornamental plants. The commonly used structural timbers can be grouped on the basis of their strength, characteristics and their natural durability into several classes in terms of their suitability for small (3-6) medium (6-12) and large spans and for permanent and temporary structures.

There is a significant relation between forestry and rural development as about 80% of our people live in rural areas. There is no doubt that development of forest can go a long way in raising the level of living of the poor and vulnerable sections of the country.
Of the various components of natural systems, forests and soil are crucial in ecological security. Of the two forests are a facet of the ecosystem very much interfered with and susceptible to rapid degradation. Forests have several uses or functions which often compete with each other. Forests are scarce and are becoming increasingly scarce in the face of pressure on them. The situation apparently fits neatly with in the frame work of the economic problem.

Forests have a modulatory role in tempering local climate regulating the hydrological cycle and in generating and protecting soils, apart from many poorly understood roles in atmosphere and biogeochemical cycles. This is in addition to meeting the requirement of a wide range of bio-resources for the rural people such as fodder, fuels small timber and a host of other materials for daily use. They support many known and unknown organisms and wild life. Forests help in maintaining a balanced environment. Among the interested parties there are the locals, that is, those who live in forest region and depend on the forest for their sustenance. Apart from fuel wood, fodder, raw material like bamboo for artisans, and minor produce like honey, local use of forests can take the form of clearance of forests either for shifting settled cultivation. Even if not cleared for cultivation, forests support local agriculture by providing green manure and fodder, preventing soil erosion and maintaining ground water recharge.

Commercial and industrial interests of the larger economy also find the forest resources immensely useful. Hardwood or timber is needed for construction, furniture, the railways and the
like, while softwood is required for paper and pulp mills and for packaging they try to dominate
the use of forests both through influencing the government and through settling their own agents in
the forest regions. Their interests arise from and determine in the process of commercialisation of
the forests, which is but a part of the transformation of both the regional and the national economy
from a pre-capitalist to a market oriented mode of production. This process also involves integration
of the forests with the larger national economy and fundamental technical changes in low forest
resources are treated and exploited.

The state or its concrete form - the government - is the third interested party in forest use.
Presumably, it is interested in the welfare of all citizen. Since promoting economic growth makes
available a large amount of resources to it with which it can govern, and since such growth is also
basic to improving the levels of living of its people, the modern state is always concerned about
maximizing the rate of economic growth. But modern economic growth takes place through
commercialization and capitalist development, involving exploitation of natural resources and
integration of regional economies into the national economy.

The Government becomes one of the three main actors in the struggle for the use of forest
resources, responding to pressures of other actors and also to technical changes in the larger
economy. The character of the state as well as its ideology regarding forest use and management
undergo a change from time to time. The changes not only alter the conditions affecting the
demand for and supply of forest resources, they also alter the relative status of different interest
groups. Demand in future can be predicted taking in to account factors such as general economic
development of the country, rate of anticipated industrial growth, literacy, urbanization, availability
of alternatives to wood and cultural traditions.

The forest product markets which have not received the attention of researchers so far, may have a great influence in shaping demand. To the extent markets integrate producers with consumers, they facilitate commodity production as producers allocate their resources on the basis of signals they receive from markets. Thus the demand is communicated to the producers (and gatherers) through the medium of markets, and may have little relevance in a market economy.

If market conditions are changed, demand for the product will change, even if other conditions remain undisturbed. Thus demand and even supply is influenced by the nature of markets, and quantification of demand cannot be done in isolation to market factors.

The demand for wood is increasing day by day and when the Government is proceeding to privatise public sector undertakings, FIT, the only Government unit producing furniture and joineries need to be protected.
Review of literature

Several studies have been undertaken on the performance of public sector undertakings. Studies have also been done on the forest management. When contribution of trees to the healthy development of living beings is significant, studies relating to wood based industries is meagre. An attempt is made here to present a brief review of such studies.

A study (1972) carried out by the National Council of Education Research and Training emphasised that the optimal functioning of an economic system is depended upon the even matching of the capability and efficiency level attained by its productive and distributive system. The study also suggested that the marketing was probably the least developed aspects of the Indian economy and that there has been very little systematic attempt to study its problem in India.

This confirms with the observation of Drucker Peter. F. (1978) that marketing was generally the most neglected area in the economic life of developing countries.

The significance of marketing was brought out (1979) by Paul Hoffman, former Administrator of the United Nation Industrial Organisation, as it was illusory to think that a country could be industrialised by building factories - industrialization means building markets.

Peer Muhammed. S. (1981) in his paper ‘The status of Government owned industries in Kerala’ stated that the policy objectives for industrialization must be periodically renewed and well defined and the highest decision making layer at the Government level, must be modernized
making it technically competent, efficient in evaluating performance and energetic in administering corrective changes. He also emphasised that if a selective approach is not followed, our total efforts in industry will continue to be distracted by the necessity to tend continuously a growing stream of sick industries.

Modi, K.N. (1981) former President FICCI, while discussing the possibilities and problems of industrial development in Kerala, says, Kerala has virtually everything needed for rapid industrialisation, and pleads the businessman to re-assess the industrial potentiality of Kerala and explore possibilities of investing in the state. At the same time, Modi, urges that the State Government must on its part do some introspection and adopt a pragmatic approach to the problems and help initiate.

Smt. Indira Gandhi (1982) late Prime Minister of India observed that “The public sector can claim no virtue, unless it functions effectively as an instrument of production and development and as a creator of new wealth. The final test lies in profitability, service and growth. If the public sector cannot pass these tests, then there is no meaning in it”.

Pranab Mukherjee, in his inaugural address at the second conference of Chief Executives of Public Enterprises held on 30th May 1983 said “Sufficient return must come out of the investment made, surplus generation is essential for further growth and development”.

Man Mohan Singh (1986) in a Lecture on Planning and Markets held at Bangalore
Indian Institute of Science, stated that “A stage has been reached that unless resource generation capability of public enterprises improves substantially, the development process itself will in jeopardy. He went on to warn thus, Indeed, if the present unsatisfactory trend in resource generation persists, the presence for privatisation is bound to grow”.

In an interview with Blitz, Vasanth Sathe (1986) said “An inefficient public sector is a drain on public resources and ultimately results in depriving the poor, because it is the programmes for the poor that are curtailed for want of funds.”

Mohanan Pillai.P (1991) in a paper Reforms in Kerala’s Industrial sector since liberalisation, stated that the new economic reforms in operation since July 1991 have ushered a new phase in the industrial development of the country and the responses of the state Government to the new phase has not been uniform.

Raveendran. T.M. carried out a study (1993) on the Socio Economic aspects of the problems of timber and wood based industries in Malabar. The study aimed at locating the problems confronted in running the unit and came to a conclusion that the growth of wood based industrial sector is impeded by the decline of the forest land which is being converted for non forest purposes, thus the prospect can be ensured only with the support of the Government and the public in general.

Sharma. K.C. (1997) in a paper on Industrial Policy in India pointed out that the indus-
trial sector was to play a key role in the achievement of the socio-economic changes and public enterprise was seen as harbinger of this transformation.

Udayalakshmi. V., (1998) in a paper on forest resources management stated that advanced technological tools like Remote Sensing and Geographic Information Sensing can call for optimal and efficient management of forest resources.

Narendra Prasad. S. (1998) in a paper revealed that Geographic Information Sensing habitat changes which is crucial for understanding dynamics of vegetation, assessment of impact on the changes on patterns and process of the ecosystem and for evolving rational and sustainable forestry policies.

Murali. K.S., (1998) in a paper suggested that any classificatory process of forest vegetation should consider the spatial dynamics of all the three layers namely, tree, shrub and herb. The existing methods of classification of forest vegetation with little information derived from other layers, so an attempt has been made to offer an objective method of classifying the vegetation using Geographic Information Sensing.

Udayalakshmi. V and Dutt C.B.S., (1998) carried out a study on the Micro level planning and sustainable forestry programmes implemented through micro level planning have been gaining momentum showing a transition from traditional forest management to people's participatory programmes, to ensure perpetual supply of forest produce in meeting the growing dem-
mand of the local people, primarily for fuel, wood, and fodder, a careful planning is essential

Sarachchandra lele, Rajashekhar. G., Venkatarama Hegde. R., Prevish Kumar. G. and Saravana Kumar. P (1998) in their study suggested that a micro scale inter disciplinary field studies are therefore essential for understanding the complex process leading to the social use and mis use of forests.

Chandra Choodan Nair. B. (2000) in his article pointed out that wood is one of the versatile materials which finds very wide application in every day life. So key challenge to the industry is to keep the sector responsive to the changing needs without any compromise on environmental factors.

Gupta. S.K. (2001) stated that there has been a considerable debate concerning the definition of forest and they have put forward a unified all encompassing definition of forest.

On a thorough review of the available literature mentioned above it is noted that the performance of the Forest Industries Travancore Limited, a major public sector enterprise in the state has not attracted the minds of the social scientists and hence the present study.

Statement of the Problem

The wood based industries may be divided in to large, medium and small on the basis of size. Gwalior Rayons (Grasim Ltd.) and Western India Plywood Company Ltd. are the two large sized units in the private sector and the Hindustan Newsprint Ltd., Kottayam in the public
sector, that utilise wood as the major raw material. Travancore Plywood Industries Ltd. and Forest Industries Travancore Ltd. are the other major wood based industries operating in the state. The study of all these units are outside the scope of the present study. The study concentrates on the Forest Industries Travancore Ltd. and their larger socio-economic implications. Being a unique enterprise with exceptional raw material requirement depending on the natural resources of the forest of Kerala the management of different functional areas like marketing, production, personnel and finance of Forest Industries Travancore Ltd. is taken for a critical evaluation in the proposed study.

The present study was undertaken on the background that no scientific study has so far been made on the working of Forest Industries Travancore Limited, despite the fact that the establishment of the company was a landmark in the history of forest industry in the state. The study focuses on the working of the company and its impact on the buying attitude of the different categories of consumers of wooden furniture like individuals, private enterprises, public enterprises and Government Departments.

Objectives of the study

The objectives of the present study are,

i) To determine the performance of Forest Industries Travancore Ltd. in relation to the procurement of timber and the processing
ii) To evaluate the working results of the corporation in relation to the management of funds.

iii) To assess the satisfaction of varied categories of consumers such as individuals, Government Department, public enterprises and private enterprises on the products of Forest Industries Travancore Limited

Hypothesis

In order to streamline the methodology for the study the following hypothesis were developed.

i) Increased cost of timber leads to increased cost of production and this intern adversely affects the performance of Forest Industries Travancore Limited.

ii) Inadequate sales promotion measures have led to the under utilisation of available capacity.

iii) High capital gearing has resulted in low return on investment.

iv) Delay in modernisation has unfavourably influenced the working results of Forest Industries Travancore Limited.

v) Consumers are satisfied with the durability and quality aspects of the products of Forest Industries Travancore Limited.

Methodology

Date relating to the performance of the Forest Industries Travancore Ltd. were collected
both from primary and secondary sources. Primary data were collected from two sources—consumers and employees.

Consumers of different items of furniture manufactured by the company are located throughout the state. Consumers include individuals, Government departments, Private enterprises and Public enterprises. However the company is mainly targeting Government offices in the state followed by the other three categories. Such being the case, on the basis of a pilot study carried out. Stratified random sampling was used for collection of primary data from the consumers. Data were collected from 700 Government offices, 100 private enterprises, 100 public enterprises and 100 individuals from the Northern, Central and Southern districts of the state.

Data were also collected from 80 employees - Supervisors - 15, Workers - 25 and Others - 40 associated with the Forest Industries Travancore Ltd. Thus 1000 consumers and 80 employees were the sample for the study.

Collection of Data

Primary data relating to the performance of the company in relation to the procurement of inputs and the processing were collected from the employees using a questionnaire for the study (Appendix I). In addition to the primary data collected from the employees, secondary data collected from the company, Government publications and various periodicals and the reports were used to determine the performance of the company.
In order to assess the satisfaction of the consumers, primary data collected from consumers were relied upon. The data from the consumers were collected by using a pre-tested interview schedule given in (Appendix - II.) Consumers were interviewed in their respective offices and resident visits were highly useful in making personal observation and assessment of the quality. The responses of the consumers were by and large encouraged.

However a few workers and consumers were reluctant to respond freely in the initial stage and they co-operated only after being convinced they would not be personally identified.

In addition to collecting responses of the consumers and employees discussions were held with experts in the field and leaders of trade-unions.

**Period of Study**


**Tools for Analysis**

In order to determine the performance of the company tools like averages, ratios and percentages were used throughout the report. With a view to measuring the level of significance, chi-square tests were employed.

**Scope of the Study**

It is hoped that the findings of the present study would be useful to planners and policy makers
in formulating future programmes for smoothening of the Forest Industries in the public sector in the state.

In a situation where the state has been facing problems related to running public sector enterprises it is felt that there is utmost need to strengthen this industry as an earner of revenue.

**Limitations**

Data related to the performance the company were collected from the office records and there was no mechanism available for counter verifying the reliability. It is against this situation that primary data were collected from the employees for an in depth analysis. In many cases responses were furnished by the employees from their memories. This sort of a limitation was again noticed on the responses of the consumers in relation to their satisfaction on the products of the company.

However in almost all cases, on the spot observation was helpful to make the data from both the sources more accurate.

**Chapterisation**

The scheme of reporting is as shown below.

Chapter One - Introduction

Chapter Two - Timber in Kerala - An Overview

Chapter Three - Forest Industries Travancore Limited - Financial Structure

Chapter Four - Operation of Forest Industries Travancore Limited

Chapter Five - Marketing Management of Forest Industries Travancore Limited

Chapter Six - Summary of Conclusions and Recommendations