

AN EMPIRICAL STUDY OF KEY FACTORS INFLUENCING THE PERFORMANCE OF MICRO ENTERPRISES

Aradhana Chouksey*

Abstract

India attain magnificent breakthrough in lifting its maximum population out of poverty. And out of diverse means of poverty alleviation, the most effective way is providing microfinance and promoting self employment and micro enterprise development. But micro enterprise development is varied in different states and as data depicts that in Malwa region of Madhya Pradesh (MP), it is not very impressive. With this objective this research is conducted to study the key factors influencing the performance of micro enterprises. And this study is unique in many aspects as it makes an effort to identify the issues of micro enterprises funded by microfinance providers. The mixed research method design is used and data is collected from 722 respondents of ten districts. Statistical tools like KMO and Bartlett's test and factor analysis are applied to extract the key factors. The findings revealed that the key factors which influence performance of micro enterprises are local business environment, high cost of inputs, management skills, lack of resources and marketing issues. Policy directions are that to develop conducive business environment and to launch awareness programme of schemes in which raw materials and other inputs are available at reasonable rates. Future direction for research is to do specific sector based study of micro enterprises funded by microfinance.

Key words: Micro Enterprise, Poverty, Micro Entrepreneurs, Funding Institution, Microfinance.

*Professor, MBA Programme, SAGE University, Indore

Introduction

Generation of employment creating livelihood, is the best solution for poverty eradication. The importance of micro and small enterprises in eradication of poverty and generation of employment is well documented (see, e.g., Miled & Rejeb, 2015; UNIDO, 2003). In India, microfinance programme initiated by Government and private sector is the major contributor in boosting the self employment and micro enterprise development. According to RBI- “Micro Credit has been defined as the provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve their living standards. Micro Credit Institutions are those, which provide these facilities”.

Moreover (Karmarkar, K.G., 2008) three basic principles of Microfinance is that firstly the –“workable solution of poverty mitigation, is self employment through micro enterprise development and secondly lack of funding support is the impediment in expansion of existing and prospective micro enterprises and lastly despite of meagre incomes, poor people are able to save”. In India microfinance is provided by mainstream financial institutions which includes commercial bank (CB), cooperative banks, regional rural bank (RRB) & small finance bank (SFB) etc. Beside that alternative financial institutions generally known as MFI (Micro finance Institution) are also providing microfinance and it consists of institutions registered as society, trust or company. In this paper we used common term as 'funding institution' for all type of microfinance providing institutions. Primarily for micro finance access, there are different types of credit delivery mechanism (lending model) are prevailing in India but most widespread are viz SHG-bank linkage programme (SBLP) in which 10-20 members form group known as self help group (SHG). Next is Joint liability group (JLG) in which 4-10 members form group. In all group lending models it is compulsory to attend training and then loan is provided to them to start micro enterprise & all members are collectively responsible for repayment of loan. Another is individual lending model in which loan is provided to individual to start micro enterprise after completion of training.

The Ministry of Micro, Small and Medium Enterprises (MOMSME) defines micro enterprise in the manufacturing sector as investment in plant and machinery not exceeding 2.5 million rupees and in the service sector as investment in equipment not exceeding 1 million rupees.

It is critical to encourage microenterprise development because in India the maximum employment i.e. 1076.79 lakh (Source: MOMSME, 2017-18) is generated by micro, small and medium enterprise (MSME) sector after agriculture sector. And the share of MSME in GDP of the country in 2015-16 is 28.77% (Source: Central statistics office, 2015-16), and there are 630.52 lakh micro enterprises in India. Contribution of MSME sector in manufacturing is 45% out of the total manufacturing. Furthermore in India the percentage of MSME per thousand people is quite low approximately 10 MSME per 1000 people. Whereas countries namely Brunei Darussalam have 122 MSME per 1000 people; Paraguay have 95 MSME per 1000 people. And it is well established that countries having more MSME have higher income per capita (Source: World Bank, 2010)

Research Gap: The growth of micro enterprises is moderate in MP in comparison of other states. In Uttar Pradesh 89.9 lakh MSME is in operation and has 14% share out of total percentage of MSME in India and provide employment to 165.26 lakh people, whereas in MP 26.74 lakh, MSME is in operation and has 04% share out of total percentage of MSME in India and provide employment to 48.80 lakh people (Source: NSSO, 73 round). Microfinance is assigned a priority sector status by RBI and the annual disbursement target under priority sector is consistently decreasing since three years in MP (Source: Nabard, 2018). Data showed that the growth of micro enterprises is somewhat retarded and it is required to give thrust to development of micro enterprises. Previous research has provided deep understanding into issues influencing performance of micro enterprises but there were fewer studies studied the factors hindering the performance of micro enterprises. This research will fill up the gap by identifying and study of factors influencing the performance of micro enterprises funded by microfinance.

Scope of the study: Malwa region is located in western part of MP state. Malwa region covers 10 districts: Shajapur, Agar Malwa, Ujjain, Indore, Dewas, Barwani, Dhar, Ratlam, Neemuch and Mandsaur. The total population of Malwa region is 15533178 and number of MSME units are 69,423. In Malwa 40% population is below poverty line in urban area especially in six districts namely Shajapur, Agar Malwa, Barwani, Dhar, Dewas and Ratlam and in remaining districts also poverty rate in urban areas is in high range (Source: Census, 2011).

Literature Review

Microfinance's remarkable contribution in promoting income generating activities by providing financial services clubbed with training and capacity building which augment the micro enterprise development in every sector and has considerable effect on enhancement of entrepreneurship (Sussan & Obamuyi, 2018). (Beck, Demriguc-kunt & Levine, 2005) in their research revealed that there is certain effect of significance of SME on increase in per capita gross domestic product. (Nichter & Goldmark, 2009) furthermore SME sector generate more employment in countries where level of education is superior and having advanced financial markets. (Beck et al., 2005) countries having developed SME sector have high economic growth. Whereas adverse business environment, bureaucratic delays, lack of government assistance, uncertainty due to random policy change is negatively affect the survival of micro enterprises (Ahmad, 2012).

And maximum micro enterprises confront the severe problem in getting fund and managing accounts receivable on time (Naidu & Chand, 2012). Furthermore diverse credit options are not available (Ahmad, 2012). And situation gets worse when it become difficult to get internal and external capital both (Yartley, 2011). Lack of security, and guarantee as well as inadequate cash inflow, scarce working capital and fewer sales is also hurdle in getting funds (Singh & Wadani, 2016; Naidu & Chand, 2013; Hashmi & patina, 2014). (Vereshchagina and Hopenhayn, 2009) in absence of adequate funding any type of loss has adverse impact on performance of enterprise. Moreover overdue payment and nonpayment by debtors, high interest rates and taxes adversely affect the paying capacity of micro enterprises (Das, 2008). Beside that entrepreneurs are not having suitable knowledge of finance and are not fully financially

aware also (Singh & Wadani, 2016). Whereas for female entrepreneurs face more problems in comparison of males in gathering financial and other resources (Danish & Smith, 2012). Next issue is know your customer norms of banks and cumbersome paper work is also a restrain in obtaining external funds (Saini, 2014). (Carreira and Silva, 2010) furthermore micro enterprises of developing countries bear more problems because financial markets are not matured enough in such countries.

(Naidu & Chand, 2012) marketing is among the major constraints in positive performance of micro enterprises. (Aruna, 2015) firstly they have to bear cut throat competition from large scale companies & MNC and it affect adversely their marketing and sales. (Saini, 2014) competition from economically strong countries like China, Japan and others is also an issue in sustainability. (Siddiqui, 2015; Saini, 2014) accessibility of substitutes at meager price as well as deficient demand is serious threat in survival of many micro enterprises. And inattention on marketing will further harm the sector (Senapati, 2014).

(Aruna, 2015; Das, 2008; Saini, 2014) maximum micro enterprises due to lack of capital unable to opt advance technology for business operation and due to that their products are not as per the choice of the customers. (Coad & Tamvada, 2012) although it is feasible, that MSME can translate technology in commercial gain. (Naidu & Chand, 2012) other problems are lack of operational and administrative skills. (Aruna, 2015; Das, 2008) infrastructural problem especially frequent power cut (Naidu & Chand, 2013; Saini, 2014) high cost of inputs like salary, rent, taxes, costly raw material and operating cost are adversely impact the performance of micro enterprises. There is absence of system which provide consistently raw material, quantity discount and conduct awareness programmes of different schemes and subsidy for these micro enterprises (Aruna, 2015). (Danish & Smith, 2012) other issues are also influence performance of micro enterprises such as female entrepreneurs has to face societal issues and institutional issues. (Coad & Tamvada, 2012) it is revealed in research that enterprise run by women entrepreneurs have chance of less growth rate. And exports enhance the probability of profitability of MSME particularly in enterprises which are new and their owners are females.

To conclude that literature on factor influencing performance of micro enterprises which are in particularly funded by microfinance providers of region specific was least available, hence it was not reasonable to compare the findings with related studies.

Objective of the study

The chief objective of the research paper is to empirically study the key factors influencing the performance of micro enterprises.

Research Methodology

In the light of above objective, this research is being undertaken with the help of quantitative and qualitative research methods.

Sample technique, Sample Size and Respondent profile: Multi stage proportionate sampling was used because population is composed of several sub groups i.e. clients of SHG model, JLG model & Individual lending model. To determine the sample size of SHG model we used sample size calculator of creative research system software and the result was 480 clients. But we took 100 SHGs and with minimum five members i.e. $100 \times 5 = 500$ clients. However in absence of baseline data of JLG and individual lending model, 40 JLGs and four members from each JLG, were selected i.e. $40 \times 4 = 160$ members. And in case of individual lending model 62 individual were selected. All respondent were selected proportionately with the help of funding institutions from all districts. Hence total is $500 + 160 + 62 = 722$ micro entrepreneurs were interviewed and total 200 focus group Interview (FGI) were conducted.

Data analysis technique: KMO test was conducted to measure whether distribution of values is adequate for conducting factor analysis and Bartlett's Test was conducted to measure the multivariate normality of data and to test whether the correlation matrix is an identity matrix. Afterwards Factor Analysis was applied to extract and study the key factors.

Sources of data: Primary data was collected through FGI in which structured questionnaire was used & 20 variables were identified and they are outline in terms of lack of marketing skills, lack of knowledge and others etc. The measurement of these variables was done on 5 point likert scale - "very small problem", "small problem", "average problem", "big problem", and "very big problem. Secondary data is collected from a range of resources like reports of World Bank, Nabard, MOMSME, journals, newspaper and many more.

Data Analysis

A KMO Measure of Sampling Adequacy test value 0.677 was obtained above the recommended value of .6 indicates good reliability of the instrument. Bartlett's Test was significant ($\chi^2(210) = 1112.827, P < 0.05$) and approximately multivariate normal and acceptable for factor analysis.

Table 1: KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.677
Bartlett's Test of Sphericity	Approx. Chi-Square	1112.827
	df	210
	Sig.	.000

By applying the factor analysis the result was generated. 50% variance was explained by five factors. A Scree plot of all the components and Eigen values was generated.

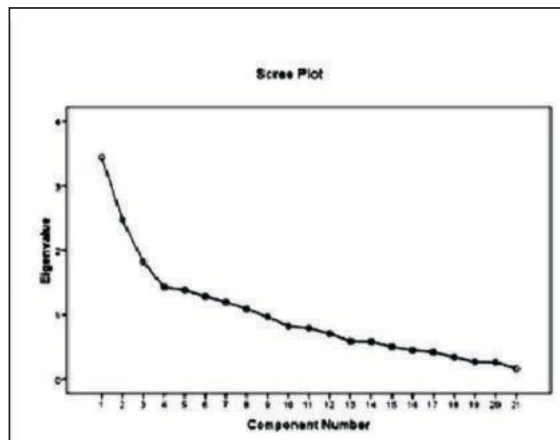


Figure: 1 Scree plot

Figure: 1 Scree plot

Table 2: Communalities

	Initial	Extraction
Lack of capital	1.000	.743
Lack of working capital loans.	1.000	.737
Lack of marketing skills.	1.000	.725
Lack of Knowledge about marketing product in big market	1.000	.817
Lack of exposure and network	1.000	.780
Weak demand for the products	1.000	.315

Difficulty in maintaining market share/competition	1.000	.366
Lack of management capacity	1.000	.389
Deficient product packaging and design	1.000	.393
Lack of availability of unskilled labour	1.000	.611
Lack of trained personnel/staff	1.000	.587
Bookkeeping and accounting skills & financial management.	1.000	.517
Insufficient infrastructure	1.000	.294
High cost of borrowing	1.000	.481
High cost of raw materials and other inputs	1.000	.536
High cost of capital assets for e.g. machines	1.000	.451
Non-availability of raw materials and other inputs	1.000	.463
The inputs needed for business readily available locally	1.000	.379
Weak local (rural) economy	1.000	.620
Corruption by Group members	1.000	.252
Other problems related to business	1.000	.099
Extraction Method: Principal Component Analysis.		

Table 3 : Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	3.442	16.392	16.392	3.442	16.392	16.392	3.068	14.611	14.611
2	2.474	11.783	28.174	2.474	11.783	28.174	2.431	11.575	26.186
3	1.823	8.683	36.857	1.823	8.683	36.857	1.900	9.047	35.233
4	1.431	6.816	43.673	1.431	6.816	43.673	1.655	7.883	43.116
5	1.383	6.585	50.258	1.383	6.585	50.258	1.500	7.142	50.258
6	1.283	6.111	56.369						
7	1.195	5.691	62.060						
8	1.090	5.192	67.252						
9	.969	4.613	71.864						
10	.824	3.924	75.788						
11	.794	3.780	79.568						
12	.708	3.370	82.938						
13	.588	2.802	85.740						
14	.582	2.770	88.509						
15	.504	2.401	90.910						

Table 4 : Rotated Component Matrix^a

	Component				
	Marketing Issues	Management Skills	Lack of Resources	Local Business Environment	High Cost of Inputs
The inputs needed for business locally available				0.568	
Lack of capital			0.830		
Lack of working capital loans.			0.853		
Lack of marketing skills.	0.836				
Lack of Knowledge about marketing products	0.894				
Lack of exposure and network	0.870				
Weak demand for the products	0.376				
Difficulty in maintaining market share	0.455				
Lack of management capacity		0.567			
Deficient product packaging and design		0.555			
Lack of availability of unskilled labour		0.712			
Lack of trained personnel/staff		0.662			
Bookkeeping and accounting skills & FM		0.687			
Insufficient infrastructure				0.485	
High cost of borrowing					0.677
High cost of raw materials and other inputs					0.636
High cost of capital assets for e.g. machines			0.414		
Non-availability of raw materials & other inputs				0.399	
Weak local (rural) economy				0.746	
Corruption by Group members					-0.485
Other problems related to business					-0.221
Extraction Method: Principal Component Analysis.					
Rotation Method: Varimax with Kaiser Normalization.					
a. Rotation converged in 6 iterations.					

Result & Discussion

The output of factor analysis is obtained by requesting principal component analysis and specifying the rotation. The table IV shows that; lack of marketing skills, lack of knowledge about marketing, lack of exposure and network, weak demand for product, difficulty in maintaining market share, have loadings of 0.836, 0.894, 0.870, 0.376 and 0.455 respectively on factor 1. This suggests that factor 1 is a combination of these five variables and it explains 14.6 percent variance & it is interpreted as 'Marketing Issues.' Marketing is a serious issue & in absence of marketing skills and network they are

unable to sell their products at reasonable price confirm the previous findings (Naidu & Chand, 2012). There is lack of awareness about modern ways of marketing and additional matter of concern is lack of training about marketing skills.

Next for factor 2 as per table IV we see that lack of management capacity, deficient product packaging and design, lack of availability of unskilled labour, lack of trained personnel/staff, bookkeeping and accounting skills & financial management, have loading of 0.567, 0.555, 0.712, 0.662 and 0.687 respectively, indicating that factor 2 is a combination of these variables and explains the 11.57 percent of variance & it is clubbed into a single factor called 'Management Issues'. Appropriate management of business is crucial for the success of micro business and management skills should be upgraded. As for factor 3 (as seen in table IV) it is evident that lack of capital, lack of working capital loans and high cost of capital resources have the loading of 0.830, 0.853 and 0.414 and it explains the 9.04 percent variance & it is termed as 'Lack of resources'. Inadequate funding, lack of diversified financial loan products & absence of hire purchase system adversely affects the expansion of micro enterprises corroborate prior findings (Carreira and Silva, 2010).

In factor 4 (in table IV) the inputs needed for business readily available locally, insufficient infrastructure, non-availability of raw materials and other inputs and weak local economy have the loading of -0.568, 0.485, 0.399 and 0.746 respectively, indicating that factor 4 is a combination of four variables and explains the 7.88 percent of variance & it is interpreted as Local business environment. Insufficient infrastructure is an issue, especially acute power crisis & these findings validate the earlier findings (Aruna, 2015; Das, 2008).

In factor 5 (in table IV) high cost of borrowing, high cost of raw materials and other inputs corruption by group members and other problems related to business have the loading of 0.677, 0.636, -0.485 and -0.221 respectively, indicating that factor 5 is a combination of four variables and explains the 7.14 percent of variance & it is termed as 'High cost of inputs. Due to high inflation in economy the high cost of raw materials and other inputs is a common problem with entrepreneurs and this result substantiate the previous research (Naidu & Chand, 2013).

Conclusion and practical implication

Growth of micro enterprises is essential in the Malwa region as they are generating employment and assist in poverty alleviation. The findings bring to light the need of management skills, suitable business environment; adequate capital and other resources and marketing skills and proposed to provide these skills and resources in a planned manner to micro entrepreneurs, which will contribute in the success of micro enterprise and microfinance programme. And future direction for research is to do specific sector based study of micro enterprises funded by microfinance. Policy directions are that to build conducive business environment and to launch awareness programme of schemes.

References

- Ahmad, S. Z. (2012). "Micro, Small and Medium Sized Enterprises Development in the Kingdom of Saudi Arabia: Problems and Constraints." *World Journal of Entrepreneurship Management and Sustainable Development*, Vol.8 (4), pp 217-232.
- Aruna, N. (2015). "Problems Faced by Micro, Small and Medium Sized Enterprises- A Special Reference to Small Entrepreneurs in Visakhapatnam." *IOSR Journal of Business and Management*, Vol.17 (4), pp 43-49.
- Beck, T., Demriguc-kunt, A., & Levine, R. (2005). "SMEs Growth and Poverty Cross-Country Evidence." *Journal of Economic Growth*, Vol.10 (3), pp 199-229.
- Carreira, C., and Silva, F. (2010). "No deep pockets: Some stylized empirical results on firms' financial constraints." *Journal of Economic Surveys*, Vol.24 (4), pp 731-753.
- Coad, A., & Tamvada, J. P. (2012). "Firm Growth and Barriers' to Growth among Small Firms in India." *Small Business Economics*, Vol.39 (2), pp 383-400.
- Danish, A, Y., & Smith, H. L (2012). "Female Entrepreneurship in Saudi Arabia: Opportunities & Challenges." *International Journal of Gender & Entrepreneurship*, Vol.4 (3), pp 216-235, <http://doi.org/10.1108/17566261211264136>.
- Das, K. (2008). "SMEs in India: Issues and Possibilities in times of Globalization." *ERIA Project 2007-05*, pp 69-97, India.

Hashani, M., & Pantina, M. B. (2014). "The business environment and Problems of Small and Medium Enterprises in Kosovo." *Iliria International Review* Vol.1 (3), pp 109-130.

Karmarkar, K.G, (2008). "Microfinance Revisited- Rural Credit Today." *Micro finance In India*. Sage Publication India Pvt. Ltd., pp 33 -54, ISBN 9780761936268.

Miled, K. B. H., & Rejeb, J. E. B. (2015). "Microfinance and Poverty Reduction: A Review & Synthesis of Empirical Evidence." *Procedia- Social & Behavioral Sciences*, Vol.195, pp 705-712.

Naidu, S., & Chand, A. (2012). "A Comparative study of the Financial Problems Faced by Micro, Small and Medium Sized Enterprises in the Manufacturing Sector of Fiji and Tonga." *International Journal of Emerging Markets*, Vol.7 (3), pp 245-262.

Naidu, S., & Chand, A. (2013). "Financial Problems Faced by Micro, Small and Medium Sized Enterprises in the Small Island States: A Case Study of the Manufacturing Sector of Fiji islands." *International Journal of Business Excellence*, Vol.6 (1), pp 1-21.

Nichter, S., & Goldmark, L. (2009). "Small Firm Growth in Developing Countries." *World Development*, Vol.37 (9), pp 1453-1464.

Saini, A. (2014). "Problems and Prospects of MSME in India." *Coventry University, United Kingdom*.

Senapati, P. (2014). "Marketing of Small Business: A Case of Small Business in India." *IOSR Journal of Business and Management*, Vol.16 (5), pp 08-11.

Siddiqui, M. A. (2015). "Problems and Challenges of MSMEs in Telangana." *International Journal of Business Quantitative Economics and Applied Management Research*, Vol.1 (11), pp 54-66, ISSN 2349-5674.

Singh, C., & Wadani, P. (2016). "Finance for Micro, Small and Medium Sized Enterprises in India: Sources and Challenges." (working paper No.581) ADBI, Retrieved from <https://www.adb.org/publications/finance-micro-small-and-medium-sized-enterprises-india-sources-and-challenges>.

Sussan, M. U., & Obamuyi, T. (2018). "The Impact of Microfinance Bank on Entrepreneurship Development in Nigeria." *Journal of Business and Economic Development*, Vol.3 (2), pp 51-61.

UNIDO (2003). "A path out of Poverty: Developing Rural and Women Entrepreneurship". 22843.en, UNIDO, Vienna.

Vereshchagina, G., and Hopenhayn, H. A. (2009). "Risk taking by Entrepreneurs." *American Economic Review*, Vol.99 (5), pp 1808-1830.

Yartlay, C. A. (2011). "Small Business Finance in Sub Saharan Africa: the case of Ghana." *Management Research Review*, Vol.34 (2), pp 172-185.

<https://msme.gov.in/sites/default/files/MSME-AR-2017-18/24/10/18>

<http://dcmsme.gov.in/data-stat.htm/24/10/18>

<http://www.eria.org/SME%20in%20IndiaIssue%2026/10/18>.

<https://www.rbi.org.in/scripts/NotificationUser/26/10/18>

www.mospi.gov.in/central-statistics-office-cso-0