An Analysis of Problems of Micro Enterprises and its Relationship with Diverse Level of Performance

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Abstract

Economic empowerment of micro entrepreneurs and poverty mitigation is feasible only by addressing the problems of micro enterprises funded by microfinance. In Malwa region of Madhya Pradesh (MP), there is high failure rate of micro enterprises and due to that they are unable to repay the microloan which raises the non performing assets (NPA) of mainstream financial institution. The core purpose of this research is to analyse is there any relationship between problems of micro enterprises and diverse level of performance of micro enterprises. Fusion of qualitative and quantitative research methods was employed and data is collected by conducting 200 focus group interviews of 722 micro entrepreneurs by means of structured questionnaire. Statistical tool used for data analysis are descriptive and ANOVA. The findings revealed that there is significant relationship exist between problems of micro enterprise and diverse level of performance of micro enterprises. The unique finding is that marketing issue is an acute problem for loss making micro enterprises and micro enterprises at break even. The future scope is to study the strategies or ways to arrest further loss in consistently loss making micro enterprises. Policy implications are that to incorporate in microfinance programme the provision of mentoring support to micro entrepreneurs.

Key words: Microfinance, Micro entrepreneur, Performance, Problems, Micro Enterprises

1.Introduction

Financial inclusion and poverty mitigation is in the core of India's growth agenda and Government of India (GOI) acknowledged microfinance program in combination of micro enterprise development as primary means of economic empowerment. (Webster et al., 1996) in their research- a World Bank study, identified that the most effectual strategy of poverty eradication is to use microfinance program in combination with micro enterprise development. As Robinson (2001, p.55-56) defines micro finance as "Micro finance refers to small-scale financial services for both credits and deposits- that are provided to people who farm or fish or herd; operate small or micro enterprises where goods are produced, recycled, repaired or traded; provide services; work for wages or commissions; gain income from renting out small amount of land, vehicles, draft animals or machinery and tools; and to other individuals and local groups in developing countries in both rural and urban areas."

Microfinance is provided through diverse microfinance programme by mainstream financial institutions viz Commercial banks (CB), Regional rural banks (RRB), Cooperative banks and Small finance banks. Beside that microfinance is provided by alternative financial institutions are known as micro finance institution (MFI) as per Micro finance Bill-2012 section 2(1) (i) MFI means –A society registered under the Societies Registration Act, 1860; or A company registered under section 3 of the Companies Act, 1956; or A trust established under any law for the time being in force; or A body corporate; or any other organisation, as may be specified by the Reserve Bank, the object of which is to provide micro finance services in such manner as may be specified by regulations. The MFI registered as trust or society are known as Non Government Organisation (NGO) MFI and MFI registered as Non banking financial company (NBFC) are known as NBFC MFI. For all type of micro finance providers common term 'Funding Institution' is used in this paper.

Microfinance is provided through various lending model (operating model), the most established is - self help group-bank linkage model (SBLP), in which 10-20 people supported to form group known as self help group (SHG). An additional lending model is Joint Liability Group (JLG) or Grameen model in which 4-5 members form group. In group lending models training support is provided and after completion of training micro loans are offered to start micro enterprise. And group members are mutually and individually responsible for repayment of loans. Ministry of micro small and medium enterprises act 2006 defined micro enterprise on the basis of investment if it is manufacturing unit, the investment in plant and machinery should not be more than Rs. 25 lakh and if it is service providing

unit then investment in equipment should not be more than Rs. 10 lakh.

1.1. Purpose of the investigation:

GOI and private sector's microfinance programme will be rewarding only when micro enterprise become profitable because micro enterprises are source of living for microfinance clients and they will be able to repay the loans when they are profit making. But in Malwa region of MP the critical issue is low rate of repayment of micro loans and high rate of NPA and it is essential to arrest high rate of NPA and failure of micro enterprises. As Nabard report - status of microfinance 2017-18 reveal that NPA is in very high range in MP in CB rate of NPA is 36.25% and in RRB it is 23.5% & whereas above all in Cooperative banks it is 86.88% and tolerable limit of NPA is just 3% (Source: SLBC), but when it is above limit, it adversely impact the sustainability and expansion of micro finance progamme. And deepening and expansion of microfinance programme and poverty mitigation is feasible only, when micro enterprises commenced by microfinance clients become profitable and sustainable. With this motive we analyse is there any relationship between problems of micro enterprises and their diverse level of performance. Problems and challenges of micro entrepreneurs were ascertained in our previous research explicitly as marketing issues, management skills, lack of resources, local business environment and high cost of inputs (Chouksey, 2018). And performance level of micro enterprise is based on profitability status i.e. is defined in terms of profitable micro enterprise, breakeven micro enterprise, and micro enterprise in loss.

1.2. Outline of Malwa Region

Research is conducted in Malwa Region of MP and for this purpose 10 districts as defined by MP government is taken for the study they are: Shajapur, Agar Malwa, Ujjain, Indore, Dewas, Barwani, Dhar, Ratlam, Neemuch and Mandsaur. Population of Malwa region is 15,53,3178 and approximately 47% of the population is economically active (Source: Census, 2011). Malwa region provide immense opportunities to Agri entrepreneurs and food entrepreneurs etc. And it is appropriate region for micro enterprise development.

Objective of the study

- The core purpose of this research is to analyse is there any relationship between problems of micro enterprises and diverse level of performance of micro enterprises.

2.Review of Literature

Poverty alleviation is the key issue of various countries and it is well known that promotion of micro enterprise through microfinance is the most effective strategies. (Hulme & Mosley, 1996) in their research point out that micro enterprise activities raised the income in speedy manner of control groups in comparison of those who didn't engaged in micro enterprise activities. And it is feasible due to (Webster et al., 1996) three objectives of microfinance is that provision of financial services and other support assist in raising prospects of job creation and money generation activities by micro enterprise development and boost production and incomes of deprived class. (Midgley, 2008) Conversely their research indicates that the effect of micro enterprise development on poverty eradication is exaggerated. However the impact of promotion of micro enterprise development on poverty mitigation is restrained due to high failure rate of micro enterprise. (Johnson & Rogaly, 1997) reveal in their research that unsuccessful micro enterprises has harmful effect on both, firstly on funding institution who invested money in micro enterprise because it become NPA and secondly it is ruinous for micro entrepreneurs because it creates livelihood crisis as they didn't have huge backup funding and it cost their meager assets.

It is crucial to improve the performance of micro enterprises. (*Vereshchagina and Hopenhayn, 2009;* Yartley, 2011) the key issue which has harmful effect on performance of micro enterprises is lack of capital and its ill effects increases when it become difficult to procure funds from funding institutions as well as non availability of internal funds and retained earnings. And scarce funding is the most critical reason which hinders the growth of micro enterprises. (Naidu & Chand, 2012) Other issues which are detrimental in survival and sustainability of micro enterprises is marketing and sales. Micro entrepreneurs face many constraints in marketing of their product and service that is limited funds, lack of experience in marketing and limited assistance in marketing by Government. (Aruna, 2015) beside that intense competition adversely impact the sustainability. Competition rises due to free entry and exit of firms and required very less capital to enter in the market. (Aruna, 2015; Das, 2008) other factor which is injurious to the growth of micro enterprise is lack of adequate infrastructure especially in India regular power cut is the serious issue. (Naidu & Chand, 2013; Saini, 2014) ever increasing cost of raw materials, salary, wages, rent, taxes and other costly inputs are preventing the success of micro enterprises. (Danish & Smith, 2012) additionally society and cultural norms as well as institutional norms for females are disadvantageous for growth and expansion of micro enterprises belongs to female entrepreneurs.

There is paucity of literature on analysis of impact of problems of micro enterprises on diverse level of performance i.e. profitable, breakeven and loss making micro enterprises so it is impractical to compare with similar findings.

3.Materials and Methods

Fusion of qualitative and quantitative research methods was employed in the research. For data collection separate structured questionnaire was prepared and used to conduct focused group interview (FGI) of micro entrepreneurs of SHG and JLG and individual lending model. Multi stage proportionate sampling technique and sample size calculator of creative research software was used to finalize the sample size of 722 micro entrepreneurs. In total 200 interviews were conducted to gather data from all districts of Malwa region**.**

The descriptive statistics were used to analyse the normal distribution of the data. And one way ANOVA was applied for analysis of relationship between problems faced by entrepreneurs and diverse level of performance of micro enterprises.

And Secondary data gathered from diverse sources and is collected from different reports published by viz state level Banker's committee, Census, World Bank, MSME, Nabard etc.

3.1. Categorical Variables in the Study:

Diverse Level of Performance of Micro enterprises:
Performance of micro enterprises is defined in terms of profitable micro enterprise, breakeven micro enterprise, and micro enterprise in loss.

3.2. Variable Measured on Interval Scale

*Problems and challenges of Micro enterprises***:** For accurate determination of problems and challenges of micro enterprises we selected 20 variables and the quantification of these variables was done on 5 point likert scale - "very small problem", "small problem", "average problem", "big problem", "very big problem. After data collection, factor analysis was carried out and the five factors emerged as problems and challenges of micro entrepreneurs viz marketing issues, management skills, lack of resources, local business environment and high cost of inputs in our previous research (Chouksey, 2018).
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4.Results and Discussion

Sustainability of micro enterprises is vital for livelihood of disadvantaged population and it is essential to give attention on each & every aspect which has directly or indirectly influence the survival, profitability and sustainability of micro enterprise.

As per the descriptive table, the higher mean of micro enterprises in loss (M=15.46) & mean of breakeven micro enterprises (M=15.35) in comparison mean of profitable micro enterprise (M=13.50) have reveal that marketing issues is a critical element for micro enterprises facing consistent loss or in break even stage.

Table 1: Descriptives						95% Confidence Interval for Mean			
		N	Mean	Std. Deviation	Std. Error	Lower Bound	Upper Bound	Min.	Max.
Marketing Issues	Profitable	150.00	13.50	3.71	0.30	12.90	14.10	5.00	23.00
	Break even	26.00	15.35	4.46	0.88	13.54	17.15	5.00	22.00
	Loss	24.00	15.46	4.44	0.91	13.58	17.33	6.00	23.00
	Total	200.00	13.98	3.97	0.28	13.42	14.53	5.00	23.00
Management Issues	Profitable	150.00	10.01	3.15	0.26	9.50	10.52	5.00	21.00
	Break even	26.00	10.46	4.62	0.91	8.60	12.33	5.00	21.00
	Loss	24.00	9.75	2.79	0.57	8.57	10.93	5.00	15.00
	Total	200.00	10.04	3.32	0.24	9.57	10.50	5.00	21.00
Lack of Resources	Profitable	150.00	11.52	2.09	0.17	11.18	11.86	5.00	15.00
	Break even	26.00	11.77	2.49	0.49	10.76	12.77	7.00	15.00
	Loss	24.00	11.92	1.82	0.37	11.15	12.68	8.00	15.00
	Total	200.00	11.60	2.11	0.15	11.31	11.89	5.00	15.00
Local Business Environment	Profitable	150.00	11.40	2.22	0.18	11.04	11.76	5.00	18.00
	Break even	26.00	11.85	2.44	0.48	10.86	12.83	7.00	17.00
	Loss	24.00	11.33	2.63	0.54	10.22	12.44	6.00	15.00
	Total	200.00	11.45	2.29	0.16	11.13	11.77	5.00	18.00
High Cost of Inputs	Profitable	150.00	10.08	2.52	0.21	9.67	10.49	5.00	17.00
	Break even	26.00	10.23	2.03	0.40	9.41	11.05	7.00	15.00

Loss	24.00	10.08	2.28	0.47	9.12	11.05	7.00	14.00
Total	200.00	10.10	2.43	0.17	9.76	10.44	5.00	17.00

Table 2: ANOVA Result for Problems of Micro Enterprises and Performance of Micro enterprises						
		Sum of Squares	df	Mean Square	F	Sig.
Marketing Issues	Between Groups	135.53	2.00	67.77	4.45	**0.01***
	Within Groups	2997.34	197.00	15.22		
	Total	3132.88	199.00			
Management Issues	Between Groups	6.80	2.00	3.40	0.31	0.74
	Within Groups	2191.96	197.00	11.13		
	Total	2198.76	199.00			
Lack of Resources	Between Groups	4.11	2.00	2.06	0.46	0.63
	Within Groups	883.89	197.00	4.49		
	Total	888.00	199.00			
Local Business Environment	Between Groups	4.78	2.00	2.39	0.45	0.64
	Within Groups	1040.72	197.00	5.28		
	Total	1045.50	199.00			
High Cost of Inputs	Between Groups	0.51	2.00	0.26	0.04	0.96
	Within Groups	1171.49	197.00	5.95		
	Total	1172.00	199.00			
*. The mean difference is significant at the 0.05 level						

Whereas breakeven micro enterprises (M=10.46) are more concerned to management issue. In case of lack of resources the higher mean depicts that micro entrepreneurs of micro enterprises in loss are facing more problem (M=11.92) in comparison of other two. While local business environment is more a problem for breakeven micro enterprises (M=11.85).

One way ANOVA was applied for the nominal variable "diverse level performance of micro enterprises" with all the five factors. Groups are on the basis of diverse level of performance of micro enterprises. The groups are based on, profitable micro enterprises, breakeven micro enterprises and micro enterprises in loss. Result is significant in one variable that is marketing issues.

- The result here indicates that there is significant difference exists among the different groups within comparisons of marketing issues as noted by a probability value of 0.01. Marketing is the acute problem for micro enterprise in loss and break even and this finding confirm the previous findings of Naidu & Chand, 2012. The foremost issue is promotion of product or service and there is lack of certification of product from recognised authority.

- Result here indicates that there is no significant difference exists among the different groups within comparisons of Management issues as noted by a probability value of 0.74.
- Result here indicates that there is no significant difference exists among the different groups within comparisons of lack of resources as noted by a probability value of 0.63.
- Result here indicates that there is no significant difference exists among the different groups within comparisons of local business environment as noted by a probability value of 0.64.
- Result here indicates that there is no significant difference exists among the different within comparisons of high cost of inputs as noted by a probability value of 0.96.

5. Conclusions

Survival and profitability is critical for poverty mitigation because failed micro enterprise raises the issue of sustainability of all stake holders. Therefore it is essential to identify the magnitude and intensity of impact of problems on micro enterprise. And it is well recognize in this research that the magnitude and intensity of problems have varied impact on at diverse level of performance

micro enterprise and the results indicate that groups are significantly differed with regard to one factor i.e. marketing issue and one hypothesis is confirmed. Policy implications are that incorporate in present microfinance programme the provision of mentoring support to micro entrepreneurs which will guide them and assist them in sailing out of problems. The future scope of study is to conduct the researches in the strategies or ways to arrest further loss in already loss making micro enterprises.

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