A STUDY ON THE FINANCIAL MANAGEMENT PRACTICES OF MICRO AND SMALL ENTREPRISES IN KERALA

Project Report

Submitted by

Dr. Raju. G

Sponsored By

Kerala Institute of Labour and Employment
Thiruvananthapuram

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DECLARATION

I, Raju.G, Associate Professor, Department of Commerce, Government College for Women, Thiruvananthapuram, hereby declare that this project report on Financial Management Practices of Micro and Small Scale Enterprises in Kerala is a bonafide record of research done by me. This has not submitted previously for any degree, diploma, associateship, fellowship or for any other similar title.

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Raju.G

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LIST OF ABREVIATIONS

Abbreviation	Expansion
MSME	Micro, Small and Medium Enterprise
MSE	Micro and Small Enterprise
MSMED Act	Micro, Small and Medium Enterprises Development Act
SME	Small and Medium Enterprise
SSI	Small Scale Industry
RBI	Reserve Bank of India

CHAPTER I

INTRODUCTION

The Micro, Small and Medium enterprises are playing a vital role in the economic development of the country. They help to generate more employment and income with lower investment through the utilization of domestically available resources. They create new and innovative use of domestically available resources by employing locally available human resources. By realizing the importance these enterprises in the economic development, the Government of India has passed the Micro, Small and Medium Enterprises Development Act in the year 2006 for facilitating the promotion and development of micro, small and medium enterprises. As per the MSMED Act 2006, an enterprise engaged in the manufacture or production of goods whose investment in plant and machinery does not exceed twenty five lakh rupees is termed as micro enterprises, exceeds twenty five lakh rupees but does not exceed five crore rupees is termed as small enterprises and exceeds five crore rupees but does not exceed ten crore rupees is termed as medium enterprises. But in the case of enterprises engaged in providing or rendering of services, the investment in equipment does not exceed ten lakh rupees is termed as micro enterprises, exceeds ten lakh rupees but does not exceed two crore rupees is termed as small enterprises and exceeds two crore rupees but does not exceed five crore rupees is termed as medium enterprises.

The role of Micro, Small and Medium Enterprises (MSMEs) in the economic development of Kerala is also very important. As on 31st March 2013 there were 2,19,444 MSME units in Kerala of which 55,416 are owned by women. The total investment made by all these units together constitute Rs.12,12,674 lakhs. The industries under this sector include handicrafts, handloom, khadi, food processing, garment and textile industries, industries related to coir, wood, bamboo, plastic, rubber, leather, clay products, etc. There are over 6,000 various MSME products ranging from traditional to high-tech items are produced. The value of goods and services produced by all these units together constitute Rs.43,36, 995 lakhs and the employment generated from these sector was 11,03,126 during 2012-13. Among the MSMEs in Kerala, the Micro and Small Enterprises have the highest share in terms of number of working units, income and employment generated.

The continuity and success of these micro and small enterprise depends mainly on the entrepreneurs risk taking ability, technical and managerial capability, management of finance, level of education, government support, etc. From among these factors, proper management of finance is the most important factor influencing the success of micro and small enterprises. The Government and financial institutions, by recognizing the importance of financial management in this sector, appointed various committees to evaluate the availability of bank credit and the utilization of funds by these enterprises. The five important committee reports submitted in this field are Dehejia Committee Report 1969, Tandon Committee Report 1975, Chore Committee Report 1980, Marathe Committee Report 1984 and Kannan Committee Report 1997. Dehejia Committee pointed out that there was a tendency on the part of these industries to avail short term credit from bank in excess of its legitimate requirements. The Tandon committee recommended that there should be a proper financial discipline has to be observed by the borrower. The financing bank should ensure that the loan is used only for the purpose for which it is made available through efficient follow up. The Chore committee has recommended for fraiming of separate credit limits for peak level and non-peak level requirements. The Marathe committee has recommended for the fast track sanctioning of loans subject to the fulfillment of certain conditions. The Kannan committee suggested that working capital credit may be determined by banks according to their perception of the borrower and the credit needs. All these committee reports have stressed the need for financial discipline and efficient management of firm's financial resources for the success of these enterprises.

Statement of the Problem

The micro and small enterprises have a key role in the economic development of India. They, through new and innovative products and services, helps to generate more employment opportunities, increased contribution towards national income and helps in the innovative and competitive use of locally available raw materials and human resources. Because of the importance of micro and small enterprises in the economic development, Government has extended all possible support for promoting and developing micro and small enterprises. Even then it is not getting the required momentum mainly because of the enormous hurdles which the entrepreneurs have to face in the various stages of the development of these enterprises.

Financial management is one of the core areas of management which determines the success or failure of every business enterprise, especially micro and small enterprises. It consists of identifying the financial needs, selecting the most appropriate sources of finance, mobilizing the required amount of money at the right time, efficient appraisal of investment proposals, effective working capital management and proper utilization of profit earned. The successful functioning of the micro and small enterprises depends heavily on effective financial management. But the financial management practices followed by the micro and small enterprises in Kerala are not up to the expected mark.

The financial management is one of the major challenges of micro and small enterprises in Kerala. The promoters of many of these enterprises are not qualified enough to efficiently manage the financial affairs or have not appointed qualified and experienced persons as financial managers to manage the financial affairs of these enterprises. The owner managers, without proper knowledge and training in the modern financial management tools and techniques, themselves manage the financial matters of these enterprises. In the present day dynamic business environment lack of sufficient knowledge and expertise in financial management is a serious problem which affects the profitability of the enterprises. Similarly, wrong financial decisions may severely affect the financial performance and may lead to the failure of these enterprises. Therefore, in this context, this study has been undertaken to analyse the financial management practices followed by the micro and small enterprises in Kerala and to suggest measures for improving them for better financial performance. This will help the success of these enterprises, which is highly essential for the growth and development of the economy as a whole.

Objectives of the Study

The study in general aims to explore in detail the financial management practices of micro and small enterprises in Kerala. But the specific objectives of the study are:

1. To study the present scenario of financial management practices of micro and small enterprises in Kerala.
2. To analyze the various sources of fund available to micro and small enterprises in Kerala.
3. To evaluate the effectiveness of investment appraisal process adopted by micro and small enterprises.
4. To analyze the working capital management practices of micro and small enterprises.
5. To study the various methods of profit management by the micro and small enterprises.
6. To make recommendations for the improvement of the financial management practices of micro and small entrepreneurial ventures in Kerala.

Methodology

The study on the financial management practices of micro and small enterprises in Kerala were conducted in two stages. In the first stage available literature and data from the published sources like publications of central and state governments, Planning Commission, Industries Department, planning board, District Industries Centers, annual reports of ministry of micro, small and medium enterprises, books, journals, websites, etc. were collected and analysed.

In the second stage primary data were collected through a structured interview schedule. The primary data were collected from a sample of 160 micro and small enterprises, engaged in agro-processing, food processing, Garment making, engineering industries, electrical and electronic products, carpentry and furniture making, handicrafts and others. A pilot study of 20 sample units was conducted before the final survey to test the validity of the interview schedule. Based on the pilot study, necessary modifications were made in the interview schedule.

The samples were selected at random from the two districts of Kerala viz. Thiruvananthapuram and Thrissur. These two districts have the highest share of micro small and medium enterprises. As on 31st March 2013, out of the 2,19,444 MSMEs registered in Kerala, Thiruvananthapuram district has 29,720 registered MSMEs (13.5 per cent) and Thrissur district has 28,899 registered MSME (13.2 per cent) units. The list of the micro and small enterprises registered in these two districts were collected from the concerned District Industry Centers. From these two districts a sample of 80 units each were selected at random.

The primary data collected through the interview schedule were analyzed with the help of statistical software by keeping in view the objectives of the study. Various mathematical and Statistical tools like averages, percentages, Chi-square, t – test, ANOVA, etc. were used for analysis.

Case studies of selected small industries which are successfully employing some good financial management practices are also included in this study report.

Limitations of the Study

The study, even though, is extensive, innovative and pioneering in nature, it suffers from the following limitations:

1. Some of the micro industries had not maintained written records of their investment, turnover, borrowings, purchases, profit, etc. Therefore, the information supplied by the respondents from their memories had to be relied upon in the study. Hence, there may be a possibility of error in the reported information due to faded memories.
2. It was found during the survey that some of the micro and small industries were closed down or not properly cooperated with the survey by giving correct information. Therefore, to keep the sample size 160 substitutes had been used.

In spite of the above mentioned limitations, the study provides a lot of valuable information which are highly useful to the policy makers for fraiming suitable strategies for improving the financial management practices of micro and small industries in Kerala.

Presentation of the Report

The report of the study is presented in the following five chapters.

Chapter I – INTRODUCTION

Chapter II – LITERATURE REVIEW

Chapter III - MICRO, SMALL AND MEDIUM ENTREPRISES IN KERALA - AN OVERVIEW

Chapter IV – FINANCIAL MANAGEMENT PRACTICES OF MICRO AND SMALL ENTREPRISES IN KERALA

Chapter V – SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSION

CHAPTER II

LITERATURE REVIEW

A number of studies have been conducted previously to evaluate the performance of micro, small and medium enterprises. Most of these studies are general in nature. But no comprehensive study has been conducted in Kerala to evaluate the financial management practices of micro and small industries. A brief review of the previous studies which have been collected is presented below.

Kalachetty (1989)[1] in his study on management of finance in small scale industries pointed out that about 30 per cent of the units did not approach any financial institution for financial assistance because of complicated procedures and numerous documents which had to be submitted along with the application. He has also stated that 48 per cent of the SSI units had no problem in getting finance from financial institutions except delay in release of funds, complicated procedure and lack of knowledge of the officers in-charge of projects.

Babu (1991)[2] in his study on small industry management revealed that finance is one of the vital areas that small scale entrepreneurs have to manage. They have to give a correct picture of the requirement regarding term loans and working capital in the project presented by them to the financial institutions. The entrepreneurs should also have to ensure a proper planning of sources and application of funds to avoid financial deficiency of the unit.

Nanjappa (2000)[3] pointed out that small scale industry is a golden mean which can bring the benefits of modern technology and economies of production. It can emerge as an important plank to tackle the problems of unemployment, under employment, regional disparities and economic backwardness.

Yerram Raju (2000)[4] in his study on Policies for SSIs in the Changing Global Economic Environment stated that in a resource scarce and labour surplus economy, small scale industries (SSIs) have been recognized as an important tool of economic growth because of its capability to provide large scale employment at low level of capital investment and also for contributing towards dispersed development.

Berry, Sweeting, Goto and Taylor (2002)[5] conducted a study on the financial management Practice amongst SMEs in UK. The sample consisted of 42 manufacturing and 98 service businesses. From their findings, it was surprising to note that so few managers in the SMEs in our sample use investment appraisal methods in any way in their investment decision processes. In the capital investment process, Payback Period at a usage rate of 11 per cent was the most popular method. Those methods involving using the time value of money, Net Present Value (NPV) and Internal Rate of Return (IRR) were lower at 7 per cent and 4 per cent respectively. Similarly a large proportion the sample (39 per cent) used Break Even Analysis.

Lal and Clement (2005)[6] in their study on Economic Development in India: The Role of Individual Enterprise concluded that India can generate additional economic growth by fostering entrepreneurial activities within its borders, particularly within its burgeoning middle class. Among other things, India is poised to generate new business startups in the high technology area that can help it become a major competitor in the world economy. To pursue further the entrepreneurial approach to economic growth, India must now provide opportunities for education directed specifically at developing entrepreneurial skills, financing of entrepreneurial efforts, and networking among potential entrepreneurs and their experienced counterparts.

Venesaar and Loomets (2006)[7] in the study on the Role of Entrepreneurship in Economic Development and Implications for SME Policy in Estonia found that financial resources and markets for newly established firms were more frequently mentioned as factors constraining the development of these enterprises Estonia.

Yifu and Xifang (2006)[8] with evidence from China concludes that entrepreneurial ventures prefer getting finance from the informal sector because of less collateral involved, low risk involved and the efficiency in allocating finance.

National Knowledge Commission (2008)[9] in their study report states that access to finance is one of the biggest limiting factors in achieving significantly higher levels of entrepreneurial growth in India. Indian entrepreneurs continue to be largely self funded (with help from family and friends) and prefer debt/bank finance over equity finance/ venture capital. There are several socio-cultural reasons for this preference; the key reason is lack of availability of seed and early stage funding.

Asuquo, Effiong, Tapang and Tiesieh (2010)[10] conducted a study on the effect of financial management practices on the profitability of small and medium enterprises in Nigeria. The study focused on five practices of financial management viz. capital structure management, working capital management, financial reporting and analysis, fixed asset management and accounting information system. Data has been collected from a sample of 170 respondents through a questionnaire based survey. Multiple regression analysis has been used to examine the relationship between financial management and Profitability. It is found that there exist a positive impact between capital structure management, working capital management, financial reporting and analysis, capital budgeting management and accounting information system and profitability. The empirical finding implies that factors of financial management of SMEs in Nigeria are good tools of improving enterprise's profitability. This finding leads to the conclusion that the efficiency of financial management practices can bring about a higher profitability for SMEs. Therefore, SMEs can improve their profitability by raising the efficiency of financial management practices.

Fatoki (2012)[11] conducted a study to investigate the financial management practices of new micro-enterprises in South Africa. The study focused on six areas of financial management namely financial planning, analysis and control, accounting information, working capital management, investment management and management accounting. The results indicate that micro-enterprises do not engage in financial planning, analysis and control. In addition, under accounting information, most of the micro enterprises keep sales book and purchases book and the use of other accounting books is limited. Also, none of the micro-enterprises makes provision for depreciation. This makes it difficult to determine the profit and growth of micro-enterprises.

The pricing decisions of micro-enterprises are mainly to realise the objective of maximising profit, sales and market share. The results for working capital management are mixed. Most of the micro-enterprises especially in the retail business do grant credit. In addition, micro-enterprises do not engage in any form of evaluation when making investment decisions. From their study it can be concluded that the financial management practices of micro- enterprises are very weak in the areas of financial planning, analysis and control and investment decisions. However, micro-enterprises do engage in a limited level of accounting information and seem to have a pricing strategy. They recommended that the owners of micro-enterprises need to take greater responsibility for their own learning. They can attend training programs organized by universities on financial management for nonfinancial managers and training programs organized by government agencies such as the Small Enterprise Development Agency (SEDA). In addition, owners of micro-enterprises need to move from manual system to computerized system for record keeping.

Ramarao (2012)[12] in his study on competitiveness of India's Micro and Small Enterprises (MSE) pointed out that lack of specific functional competencies will reflect in the day today functions and have immediate impact resulting in fast erosion of confidence in the internal and external stake holders. One of the critical functions that adversely affect MSEs is financial management. Non-availability of finance for critical financial needs is one of the crippling factors for growth of Indian MSEs. However, the major cause for this threat lies in the weak financial competencies of MSEs. This has lead to sub-optimal performance of the firms in the sector and resulted in default in payments or sometimes even nonpayment, depleting the confidence of the financing institutions. This has become a vicious circle driving firms to resort to self financing or tapping costly sources of capital in turn leading to eroded competitiveness.

Ramaswamy (2012)[13] in his study on financial management practices of micro handloom enterprises: a case study of Tenzawl cluster in Mizoram attempts to understand the financial management practices of micro handloom enterprises predominantly run by women in a remote tribal cluster in Mizoram. He pointed out that immediate intervention of government in developing entrepreneur's access to bank credit will enable the sustainable growth and development of the cluster. Delay in addressing this challenge could adversely affect the sustenance, survival and growth of the enterprise in the cluster.

Abanis, Arthur, Burani and Eliabu (2013)[14] had conducted a study on the financial management practices in small and medium enterprises in selected districts in Western Uganda to determine the extent of financial management practices in Small and Medium Enterprises(SMEs) in the dimensions of working capital management (cash management, accounts receivable management, inventory management practices), investment, financing, financial reporting and analysis and accounting information systems. They found that majority of SMEs owners (52%) in western Uganda are female, more than 69 per cent of the SMEs owners are in their early adult hood and 30.1 per cent of the SMEs owners are high school leavers. The findings further revealed that the extent of financial management is low among SMEs (Average Mean = 2.19). The Theory of Pecking Order which states that Management has a preference to choose internal financing before external financing was proven in this study in the aspects of SMEs using internally generated funds as compared to borrowed funds.

They recommended that the various agencies in the field should provide a platform for training the SMEs owners on how to adopt and implement working capital management practices particularly on cash management since cash is the life blood of every business so as to ensure long term survival of the SMEs while current status of working capital management among SMEs in Western Uganda is low. Trainings should also be organized for SMEs owners to help them to understand the relevance of book keeping, financial reporting and analysis as well maintaining proper books of analysis. The SMEs owners should be advised to strengthen and put up policies regarding debtors on how to collect receivables, so as to minimize losses that accrue as a result of non payment. Similarly, efforts should be put by SME owners to ensure that inventory management is improved through setting re-order levels, minimum and maximum levels so that the business does not run out of stock as well as not to tie too much capital in stock which affects the working capital.

It is clear from the above reviews that small scale industries are contributing a lot for the economic development of the country by creating more employment opportunities, utilizing locally available raw materials and contributing more towards the national income. The successful survival and growth of micro and small industries have great significance in the development of the country. Financial management is the key areas of management which determines the success of these enterprises. Therefore, an in depth study of the financial management practices of micro and small enterprises will help the policy makers to take suitable decisions for strengthening their financial management practices.

End Notes

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CHAPTER III

MICRO, SMALL AND MEDIUM ENTREPRISES IN KERALA – AN OVERVIEW

The Micro, Small and Medium Enterprises (MSMEs) are widely acknowledged as one of the key force behind the socio-economic development of a country like India. They, with a small amount of capital, create large number of employment opportunities, contribute significantly to the GDP of the country and effectively utilize the locally available resources. As per the Micro, Small and Medium Enterprises Development Act 2006, an enterprise engaged in the manufacture or production of goods whose investment in plant and machinery does not exceed twenty five lakh rupees is termed as micro enterprises, exceeds twenty five lakh rupees but does not exceed five crore rupees is termed as small enterprises and exceeds five crore rupees but does not exceed ten crore rupees is termed as medium enterprises. But in the case of enterprises engaged in providing or rendering of services, the investment in equipment does not exceed ten lakh rupees is termed as micro enterprises, exceeds ten lakh rupees but does not exceed two crore rupees is termed as small enterprises and exceeds two crore rupees but does not exceed five crore rupees is termed as medium enterprises.

From among the MSMEs, the Micro and Small Enterprises (MSEs) have a significant contribution in the country's GDP, employment generation and export. The MSEs are generally established by one person or a small group of persons. These enterprises are generally managed and controlled by owner managers, who contribute the capital and are responsible for making important decisions. But a team of professional managers are available for managing the affairs of medium and large scale enterprises. The MSEs are the nurseries for the new and innovative entrepreneurs and also help to achieve the equitable and inclusive growth of the country. One of the unique features of MSEs is that their capital-labour ratio is very small as compared to their large scale counterparts.

The growth in the performance of MSMEs in India in terms of number of units, employment generated, market value of fixed assets and the value of gross output produced presented in Table 3.1 reveals that the total number of working enterprises in India had increased from 105.21lakhs units to 447.73 lakhs units during the period from 2001-02 to 2011-12. The number employment generated from this sector also had increased from 249.33 lakhs to 1012.59 lakhs during the same period. Similarly the investment made in fixed asset of MSME sector had increased from Rs.1,54,349 crores to Rs. 11,76,939 crores and the value of gross output produced by all these units together was Rs.2,82,270 crores, which increased to Rs.18,34,332 crores during the period from 2001-02 to 2011-12.

Table 3.1

Performance of SSI/MSME Units in India
(Employment, Investment and Gross Output)

Year	Total Working Enterprises (In Lakhs)	Employment (In Lakhs)	Market Value of Fixed Assets (Rs. in Crores)	Gross Output (Rs. in Crores)
2001-02	105.21	249.33	154349	282270
2002-03	109.49	260.21	162317	314850
2003-04	113.95	271.42	170219	364547
2004-05	118.59	282.57	178699	429796
2005-06	123.42	294.91	188113	497842
2006-07	361.76	805.23	868544	1351383
2007-08	377.37	842.23	917437	1435179
2008-09	393.70	881.14	971407	1524235
2009-10	410.82	922.19	1029331	1619356
2010-11	428.77	965.69	1094893	1721553
2011-12	447.73	1012.59	1176939	1834332
Compound Growth Rate (%)	14.07	13.59	20.28	18.55

Source: Govt. of India, Ministry of Micro, Small and Medium Enterprises, Annual Report 2012-13, p 15.

Table 3.2
Average Performance of SSI/MSME Units in India
(Employment, Investment and Gross Output)

Year	Average Number of Employees per Unit	Average Investment per Unit (Rs.)	Average Value of Output per Unit (Rs.)
2001-02	2.37	146706	268292
2002-03	2.38	148248	287561
2003-04	2.38	149380	319918
2004-05	2.38	150686	362422
2005-06	2.39	152417	403372
2006-07	2.23	240088	373558
2007-08	2.23	243114	380311
2008-09	2.24	246738	387156
2009-10	2.24	250555	394176
2010-11	2.25	255357	401510
2011-12	2.26	262868	409696

Source: Govt. of India, Ministry of Micro, Small and Medium Enterprises, Annual Report 2012-13, p 15.

The average performance of MSMEs in India in terms of number of employees, investment and value of output presented in Table 3.2 reveals that there is no significant difference in the average number of employment generated during the period under study. It was 2.37 in 2001-02 which decreased to 2.26 in 2011-12. But the average investment during the period has increased significantly from Rs.1,46,706 to Rs.2,62,868. The value of output produced per unit is also increased significantly from Rs.2,68,292 to Rs.4,09,696. This shows that even though, there is significant increase in the investment and value of output produced, there is no significant increase in the employment generation.

Table 3.3

Growth of MSME Units Registered in Kerala

Year	New				Total			
	No. of MSME Units	Total Investments (Rs. in lakhs)	Employment Generated (Nos.)	Value of Goods and Services Produced (Rs. in lakhs)	No. of MSME Units	Investments (Rs. in lakhs)	Employment Generated (Nos.)	Value of Goods and Services Produced (Rs. in lakhs)
2007-08	11186	189760	116189	588100	195960	600255	722860	1257899
2008-09	8421	56595	48111	132155	204381	656849	770971	1390055
2009-10	9322	73046	60876	255895	213740	731212	831847	1545949
2010-11	10882	145366	84878	478670	194908	892526	941981	1639560
2011-12	11079	190643	79181	584985	205987	1083169	1021162	3715570
2012-13	13043	185051	81964	621425	219444	1212674	1103126	4336995
Compound Growth Rate (%)	-	-	-	-	1.90	12.44	7.30	22.91

Source: Kerala State Planning Board, Economic Review, 2013.

The growth in the performance of newly registered as well as total number of units in terms of number of units registered, investment in fixed assets, employment generated and value of goods and services produced during the period from 2007-08 to 2012-13 is presented in Table 3.3. It can be seen from the Table that the total number of MSME units registered in Kerala had increased from 1,95,960 to 2,19,444 during the period under study. On an average about 10,000 new units were registered every year. The investments in fixed assets in this sector had increased form Rs. 6,00,255 lakhs to Rs. 12,12,674 lakhs while the value of goods and services produced by the MSMEs in Kerala had increased significantly from Rs. 12,57,899 lakhs to Rs. 43,36,995 lakhs.

The district wise distribution of MSMEs registered as on 31st March 2013 presented in Table 3.4 reveals that out of the 2,19,444 registered units, Thiruvananthapuram district has the highest share (13.5 per cent), followed by Thrissur district (13.2 per cent) and Ernakulam district (13 per cent). As regards investment, Ernakulam district has the highest share of 21.1 per cent, followed by Thrissur district with 10.1 per cent and Thiruvananthapuram district with 10 per cent. But in the case of employment generation Ernakulam district is the leader with 17.4 per cent followed by Thiruvanathapuram (13.1 per cent) and Thrissur (10.4 per cent) districts. The value of goods and services produced by MSMEs in different districts shows an entirely different picture. Idukki district, known for spices and its processing, with share of 29.7 per cent ranked first, Ernakulam district with a share of 19.7 per cent ranked second and Thiruvananthapuram district ranked third with 6.6 per cent.

Table 3.4

District wise Distribution of Registered MSME units in Kerala as on 31-03-2013

District	No. of Units	Investment (Rs. in Lakhs)	Employment (Nos.)	Value of Goods and Services Produced (Rs. in Lakhs)
Thiruvanathapuram	29720 (13.5)	121533 (10.0)	144168 (13.1)	285429 (6.6)
Kollam	14939 (6.8)	82133 (6.8)	104703 (9.5)	171992 (4.0)
Pathanamthitta	8857 (4.0)	44385 (3.7)	49447 (4.5)	106497 (2.5)
Alappuzha	16554 (7.5)	85983 (7.1)	92381 (8.4)	141520 (3.3)
Kottayam	23059 (10.5)	105531 (8.7)	77853 (7.1)	244854 (5.6)
Idukki	4854 (2.2)	38638 (3.2)	26883 (2.4)	1286917 (29.7)
Ernakulam	28428 (13.0)	255872 (21.1)	192156 (17.4)	856327 (19.7)
Thrissur	28899 (13.2)	122657 (10.1)	114965 (10.4)	259659 (6.0)
Palakkad	14714 (6.7)	100089 (8.3)	65860 (6.0)	344656 (7.9)
Malappuram	11508 (5.2)	62820 (5.2)	50714 (4.6)	138021 (3.2)
Kozhikode	17346 (7.9)	94434 (7.8)	81674 (7.4)	221183 (5.1)
Wayanad	3207 1.5	16842 (1.4)	16628 (1.5)	58726 (1.4)
Kannur	11124 (5.1)	56505 (4.7)	52195 (4.7)	175179 (4.0)
Kasaragod	6235 (2.8)	25252 (2.1)	33499 (3.0)	46036 (1.1)
Total	219444 (100.0)	1212674 (100.0)	1103126 (100.0)	4336996 (100.0)

Source: Kerala State Planning Board, Economic Review, 2013.

Note: Figures in parentheses shows percentages to total.

The district wise distribution of average employment, investment and value of output produced by MSMEs in Kerala as on 31st March 2013 is presented in Table 3.5.

Table 3.5

District wise Distribution Average Employment, Investment and Value of Output in Kerala as on 31-03-2013

District	Average Number of Employment	Average Investment (Rs.)	Average Value of Output (Rs.)
Thiruvananthapuram	4.85	408927	960394
Kollam	7.01	549789	1151295
Pathanamthitta	5.58	501129	1202405
Alappuzha	5.58	519409	854899
Kottayam	3.38	457656	1061859
Idukki	5.54	796003	26512505
Ernakulam	6.76	900070	3012266
Thrissur	3.98	424433	898505
Palakkad	4.48	680230	2342368
Malappuram	4.41	545881	1199348
Kozhikode	4.71	544414	1275124
Wayanad	5.18	525164	1831182
Kannur	4.69	507956	1574784
Kasaragod	5.37	405004	738348
Total	5.03	552612	1976357

Source: Kerala State Planning Board, Economic Review, 2013.

The Table 3.5 reveals that the average number of employment generated from MSMEs in Kerala is 5.03. But the district wise details also presented in the same Table shows that Kollam district has the highest number employees per unit i.e.7.01, followed by Ernakulam district with 6.76 employees and Pathanamthitta district with 5.58 employees per unit. The average investment at all Kerala level was Rs.5,52,612 which is Rs.9,00,070 in Ernakulam district, Rs. 7,96,003 in Idukki district and Rs. 6,80,230 in Palakkad district. The average value of output produced per unit at all Kerala level was Rs. 19,76,357, which is much higher in Idukki district i.e. Rs. 2,65,12,505 followed by Ernakulam district with Rs.30,12,266 and Palakkad district with Rs.23,42,368.

Figure 3.1
Comparative Analysis of Average Employment, Investment and Value of Output of MSMEs in Kerala and at All India Level as on 31-03-2012

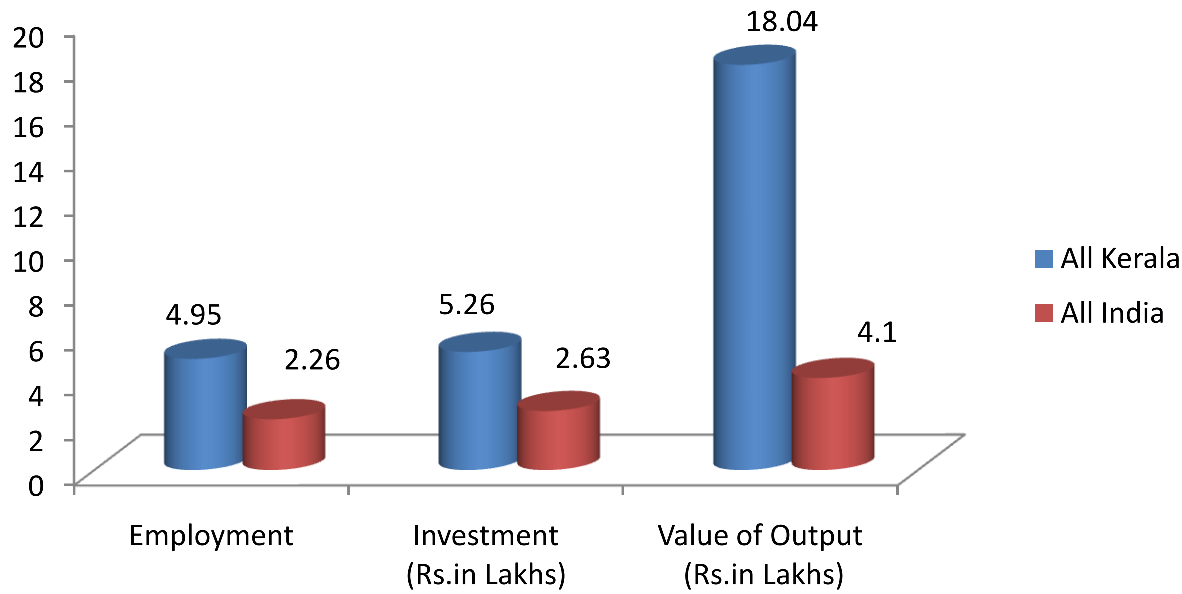


Figure 3.1 gives a comparative analysis of average employment, investment and value of output of MSMEs in Kerala and at All India level as on 31-03-2012. It can be seen from the figure that the average number of employment generated by MSMEs in India is 2.26 per unit but it is more than double (4.95) in the case of MSMEs in Kerala. The average investment per MSME at All India level was Rs.2.63 lakhs while it was Rs.5.26 lakhs in Kerala. Similarly, the average value of output produced by MSMEs per unit was Rs.4.10 lakhs at all India level where as it is Rs.18.04 lakhs in Kerala. The comparative analysis shows that the performance of MSMEs in Kerala is far better than that at all India level.

CHAPTER IV
FINANCIAL MANAGEMENT PRACTICES OF MICRO ENTREPRISES IN KERALA

The finance is regarded as the life blood of every business enterprise. Finance may be defined as the provision of money at the time it is needed. It is the basic foundation on which all kinds of business activities are relied upon. It is also regarded as the master key which provides access to various business activities. It is rightly said that business needs money to make more money. Efficient management of a business enterprise is closely linked with efficient management of its finance.

Financial Management is the most important area of management. It is that part of the managerial activity which is concerned with the planning and controlling of the firms financial resources. In the words of Westen and Brigham financial management is an area of financial decision making, harmonizing individual motives and enterprise goals. Howard and Upton define financial management as the application of general managerial principles to the area of financial decision making. According to Solomon financial management is concerned with the efficient use of an important economic resource, namely, capital funds. The basic objective of financial management is maximisation of profit and wealth of the firm and its owners.

The scope of financial management consists of:

Financing Decision

Investment Decision

Dividend Decision (Management of Profit)

Financing Decision

The primary task of every finance manager is to provide the required funds to the business at the proper time. He has to identify the sources, from where the funds can be raised, the amount that can be raised from each source, the cost and other consequences of raising funds from each source. A proper balance has to be maintained between both owned and borrowed funds.

Investment Decision

Investment decision consists of decision relating to investment in both fixed and current assets. The finance manager of the enterprise has to evaluate the different capital investment proposals and select the best proposal keeping in view the overall objective of the enterprise. This process is called Capital budgeting. The various methods used for evaluating the project proposals are:

Payback Period Method

Average Rate of Return Method

Net Present Value Method

Internal Rate of Return Method and

Profitability Index or Benefit – Cost Ratio Method

The payback period method and the average rate of return method are called the traditional methods because in these methods the time value of money is not considered for project evaluation. But in the modern methods like net present value method, internal rate of return method and profitability index method the anticipated future earnings are discounted with an appropriate discounting factor to arrive at its present value. The firm can use any one or all the methods for evaluating the project proposals.

The decision relating to the investment in current assets is generally called as working capital management. It depends mainly on the credit and inventory policy pursueded by the enterprise. The credit policy, consisting of decision relating to the terms of credit purchase and credit sales, is determined by keeping in view the need of growth in sales and the availability of finance. Similarly, the inventory policy of the firm is also formulated by taking in to account the requirements of production, the market trend of the price of raw materials, the availability of raw materials, the availability and cost of funds, etc.

Dividend Decision (Management of Profit)

The management of profit generally involves the determination of the percentage of profits earned by the enterprise, which is to be retained in the business for financing future development. A successful enterprise may retain a part of its profit for financing its future investment activities. This decision to retain a certain percentage of profit in the business depends on whether the enterprise can make use of the fund more profitably or not. The other factors which influence this decision are trend of earnings, tax position, borrowing capacity, etc.

Financial Management Practices of Micro and Small Enterprises

The micro and small enterprises are the driving force behind the development of the economy. It helps to find out creative and innovative use of domestically available resources and creates more employment and income in the economy. The financial management has a crucial role for the successful growth and survival of these micro and small scale enterprises because deficiencies in financial management have been repeatedly cited as a root cause of business failure of micro and small enterprises.

The financial management practices followed in the micro and small enterprises are evolutionary in nature because most of the MSEs are owner managed and therefore, their financial management practices are highly influenced by the knowledge, experience and expertise of these owner managers. The financial management practices employed by them are of firefighting in nature i.e. they are dealing with the problems as and when they arise. These entrepreneurs are learning them by doing i.e. they learn through experience and are not planned through proper theoretical base. Therefore, the change in the financial management practices which is happening in MSEs is gradual and lacks a holistic approach. Similarly, the financial management practices of these owners managed MSEs are less static because they may change the existing system and practices through their experience.

This research study is focused mainly on the following areas of accounting and financial management practices of micro and small enterprises in Kerala.

a. Accounting.
b. Financial Planning and Capital Structure.
c. Investment Appraisal.
d. Working Capital Management consisting of inventory management, receivables management and cash management.
e. Management of Profit and
f. The application of computer in the area accounting and financial management.

PROFILE OF THE ENTERPRISES

The study on financial management practices of micro and small enterprises is based mainly on primary data. The primary data required for the purpose of the study was collected from a sample of 160 micro and small enterprises in Kerala i.e. 80 samples each from Thiruvananthapuram and Thrissur districts through a structured interview schedule. The data collected were classified, tabulated and analysed with the help of statistical software by keeping in view the objectives of the study. The results of the analysis are presented below.

The profiles of the enterprises which have been selected for study are presented in Table 4.1. It can be seen from the Table that out of 160 units, 157 units are micro enterprises and the remaining 3 units are small scale enterprises. Therefore, the analysis of the primary data collected is done separately for the micro and small enterprises. This chapter is devoted to analyse the financial management practices of micro enterprises in Kerala.

The location wise analysis reveals that out of the 157 micro enterprises 52.9 per cent of the units selected are from rural area, while the remaining 47.1 per cent are from urban area. Among these micro units 21.7 per cent are in existence for period of more than 10 years, 15.9 per cent are existing for 6 to 10 years, 30.6 per cent for 3 to 5 years and 31.8 per cent have up to 2 years of existence. The ownership pattern of these units also presented in Table 4.1 shows that out of 157 micro enterprises 137 units (87.3 per cent) are sole proprietorship organizations and 20 units (12.7 per cent) are other forms of organizations like partnerships, Joint stock companies, cooperative societies or self help groups.

Regarding the nature of business activity 124 units (79 per cent) are engaged in manufacturing, while the remaining 33 units (21 per cent) are engaged in providing various services like software development, DTP and Photostat, repairing of electrical and electronic equipments, beauty parlour, hatchery, etc. The micro enterprises selected are engaged in manufacturing various products and rendering services. Among the selected 157 units 10.2 per cent (16 units) are engaged in manufacturing rubber, plastic, cement and clay based products or providing services related to it. 27 units (17.2 per cent) are in to the area of wood and steel based products and services like furniture making, saw mill, welding and other engineering activities. There are 11 units (7 per cent) which are engaged in stitching, garment making or weaving. 14 units (8.9 per cent) are in the health care sector engaged in activities like producing ayurvedic medicines and other products, cosmetics, etc.

Table 4.1

Profile of the Enterprises

Status of the Unit			
Sl. No.	Status	No. of Respondents	Percentage to Total
1	Micro Unit	157	98.1
2	Small Scale Unit	3	1.9
	Total	160	100.0
Location			
Sl. No.	Location	No. of Respondents	Percentage to Total
1	Rural	83	52.9
2	Urban	74	47.1
	Total	157	100.0
Period of Existence			
Sl. No.	Years	No. of Respondents	Percentage to Total
1	Up to 2 Years	50	31.8
2	3-5 Years	48	30.6
3	6-10Years	25	15.9
4	Above 10 Years	34	21.7
	Total	157	100.0

Nature of Ownership			
Sl. No.	Nature of Ownership	No. of Respondents	Percentage to Total
1	Sole Proprietorship	137	87.3
2	Others	20	12.7
	Total	157	100.0
Nature of Business Activity			
Sl. No.	Nature of Business Activity	No. of Respondents	Percentage to Total
1	Manufacturing	124	79.0
2	Service	33	21.0
	Total	157	100.0
Nature of Product or Service			
Sl. No.	Nature of Product or Service	No. of Respondents	Percentage to Total
1	Rubber, Plastic, Cement and Clay Based	16	10.2
2	Wood and Steel Based	27	17.2
3	Garments	11	7.0
4	Health Care	14	8.9
5	Food Products	30	19.1
6	Electrical, Electronics and Computer Based	22	14.0
7	Other Products and Services	37	23.6
	Total	157	100.0
Number of Persons Employed			
Sl. No.	Number of Persons	No. of Respondents	Percentage to Total
1	Up to 2 Persons	72	45.9
2	3 – 5 Persons	47	29.9
3	Above 5 Persons	38	24.2
	Total	157	100.0
Investment in Fixed Assets			
Sl. No.	Investment	No. of Respondents	Percentage to Total
1	Up to Rs.1,00,000	30	19.1
2	Rs.1,00,001 – 5,00,000	74	47.1
3	Above Rs.5,00,000	53	33.8
	Total	157	100.0
Annual Turnover			
Sl. No.	Turnover	No. of Respondents	Percentage to Total
1	Up to Rs.5,00,000	98	62.4
2	Rs.5,00,001 – 10,00,000	33	21.0
3	Above Rs.10,00,000	26	16.6
	Total	157	100.0

Source: Primary Data

The micro enterprises provide employment to a large number of persons. The details of the number of persons employed in the selected micro enterprises presented in the Table 4.1 reveals that up to 2 persons are employed in 72 units (45.9 per cent), 3 to 5persons are employed in 47 units (29.9 per cent) and above 5 persons are employed in 38 units (24.2 per cent). The average number of employment generated per unit is 4.5. As regards investment in fixed assets 19.1 per cent (30 units) of the units surveyed have investment up to Rs.1,00,000 in fixed assets, 47.1 per cent (74 units) have investment of Rs.1,00,001 to Rs.5,00,000 in fixed assets and 33.8 per cent (53 units) have investment of above Rs,5,00,000 in fixed assets. The annual turnover details of these units also presented in the same table reveals that 98 enterprises (62.4 per cent) have an annual turnover of up to Rs.5,00,000. The annual turnover of 33 enterprises (21 per cent) is Rs.5,00,000 to Rs. 10,00,000 and 26 enterprises (18.1 per cent) have turnover of above Rs.10,00,000.

Table 4.2
Location- wise Distribution of Micro Enterprises According to Nature of Business
(Test of Significance using Chi-square Test)

Sl. No.	Nature of Business	Location		Total
		Rural	Urban	
1	Manufacturing	72 (58.1)	52 (41.9)	124 (100.0)
2	Service	11 (33.3)	22 (66.7)	33 (100.0)
	Total	83 (52.9)	74 (47.1)	157 (100.0)

Note: Figures in parenthesis shows percentages to total.
Chi-square = 6.398,   P =0.01**,   ** Significant at 1 per cent level

The location-wise distribution of the sample units presented in Table 4.2 reveals that 58.1 per cent of the total number of units engaged in manufacturing activities is located in rural area while it is only 41.9 per cent in urban area. But in the case of micro enterprises engaged in service activities only 33.3 per cent are located in rural area and the remaining 66.7 per cent of the units are located in urban area. In order to test whether there is any significant difference in the distribution of manufacturing and service sector organizations among rural and urban areas, Chi-square test is applied. The result reveals that there is significant difference in the distribution of manufacturing and service sector units between rural and urban area (χ^2 = 6.398, P < 0.01) i.e. majority of the micro enterprises engaged in manufacturing are located rural area, while majority of the micro enterprises engaged in service activities are located in urban area.

Table 4.3
Location wise Distribution of Micro Enterprises According to Type of Product/Service
(Test of Significance using Chi-square Test)

Sl. No.	Type of Product and Service	Location		Total
		Rural	Urban	
1	Rubber, Plastic, Clay and Cement Based	11 (68.8)	5 (31.2)	16 (100.0)
2	Wood and Steel Based	17 (63.0)	10 (37.0)	27 (100.0)
3	Garments	5 (45.5)	6 (54.5)	11 (100.0)
4	Health Care	10 (71.4)	4 (28.6)	14 (100.0)
5	Food Products	17 (56.7)	13 (43.3)	30 (100.0)
6	Electrical, Electronics and Computer Base	6 (27.3)	16 (72.7)	22 (100.0)
7	Others	17 (45.9)	20 (54.1)	37 (100.0)
	Total	83 (52.9)	74 (47.1)	157 (100.0)

Chi-square = 11.571, P =0 .072^{NS}, NS = Not significant at 5 per cent level.

Table 4.3 shows the location-wise distribution micro enterprises surveyed according to the type of product or service they are producing or rendering. Chi-square test is administered to test whether there exist any significant difference in the distribution of different type of product or service between rural and urban area. From the test result, it is found that there is no significant difference in the distribution of number of units engaged in producing different type of product or service between rural and urban area (χ^2 = 11.571, P > 0.05), which leads to the conclusion that majority of MSEs engaged in producing goods or rendering services related to rubber, plastic, clay and cement based, wood and steel based, health care and food items are located in rural area while garment units, electrical, electronics and computer based units and units engaged in other activities are located in urban area.

Table 4.4 analyses the major factor which influenced the promoters to establish and run the venture. It is found from the Table that 61.8 per cent of the total number of units started is for self employment, 24.2 per cent of the units started are for getting additional income and 14 per cent of the units started are for other intensions like social service, etc.

Table 4.4
Factors Prompted to Start the Business

Sl. No.	Factors	No. of Respondents	Percentage to Total
1	Self Employment	97	61.8
2	Additional Income	38	24.2
3	Others	22	14.0
	Total	157	100.0

Source: Primary Data

Financial Management Practices

The financial management is one of the core area of management which determines the success or failure of an organization. Besides experience, qualifications are also an important aspect of successful financial management. During the survey information about the qualification of promoters in the area of accounting and financial management were also sought. From the results given in Table 4.5, it is found that very few (5.1 per cent) of the promoters are having the formal educational background in the area of accounting and financial management. Of the remaining 149 respondents (Table 4.6) 65 are employing people either on fulltime or part time basis for accounting and other related work. But the remaining 84 respondents are managing their accounting and financial management activities by themselves using their traditional skill and experience.

It can be seen from Table 4.7 that among the 157 respondents only 16 respondents have got some form of training in accounting and that too majority of them got the training from private institutions. The remaining 141 respondents have not yet received any formal training in the area of accounting and financial management from anywhere. Of the 16 respondents who have got training 15 of them got it from private training centers and one from government training center. This shows the need for organizing special training programmmes in the area of accounting and financial management especially for the promoters of micro enterprises.

Table 4.5
Professional or Academic Qualification in Accounting or Financial management

Sl. No.	Qualification	No. of Respondents	Percentage to Total
1	B.Com, BBA, M.Com, Diploma, etc.	8	5.1
2	No Formal Qualification in Accounting or Financial Management	149	94.9
	Total	157	100.0

Source: Primary Data

Table 4.6
Employing Qualified Persons for Accounting/ Financial Management

Sl. No.	Status	No. of Respondents	Percentage to Total
1	Employing Qualified Persons	65	43.6
2	Not Employing Qualified Persons	84	56.4
	Total	149	100.0

Source: Primary Data

Table 4.7
Special Training in Accounting or Financial Management

Sl. No.	Status	No. of Respondents	Percentage to Total
1	Govt. Training Centers	1	0.6
2	Private Training Centers	15	9.6
3	Not Received any Special Training	141	89.8
	Total	157	100.0

Source: Primary Data

Capital Structure

The capital structure is one of the most important aspects of financial planning. It refers to the composition of long term sources of funds. According to John J Hampton, “Capital Structure is the combination of debt and equity securities that comprises a firms financing of its assets”. The micro enterprises basically depend owned capital for financing their investment. The capital structure details of the enterprises which are selected for the study presented in Table 4.8 discloses that 94.9

per cent of the units are using owned funds for their business, while only 4.9 per cent of the units are functioning with out any owned fund. Borrowed funds are used for investment by 47.8 per cent of the units and only 7 per cent of the units got some assistance or subsidy from government.

Table 4.8
Capital Structure

Sl. No.	Type of Fund Used	No. of Respondents	Total Number of Units	Percentage to Total
1	Owned Funds	149	157	94.9
2	Borrowed Funds	75	157	47.8
3	Govt. Subsidy/ Assistance	11	157	7.0

Source: Primary Data

The details of the quantum of owned funds used by these firms presented Table 4.9 reveals that out of 157 units only 8 units are functioning without any owned fund, 12.7 per cent of the units have invested up to 40 per cent of their investment from owned funds, 30.6 per cent of the firms have invested from 41 to 99 per cent of their investment from owned funds and the remaining 51.6 per cent of the units are functioning with 100 per cent owned funds.

The owned fund mobilized by these enterprises varies from 20 per cent to 100 per cent with a mean of 80.28 per cent and standard deviation of 24.53 per cent. The skewness factor of distribution of owned fund mobilized is -0.806, which is negative indicating that majority of respondents have mobilized higher proportion of owned funds.

Table 4.9
Proportion of Owned Capital

Sl. No.	Proportion	No. of Respondents	Percentage to Total
1	No Owned Funds	8	5.1
2	Up to 40 Per cent Owned Funds	20	12.7
3	41 to 99 Per cent Owned Funds	48	30.6
4	100 Per cent Owned Funds	81	51.6
	Total	157	100.0

Source: Primary Data

Table 4.9 a

Descriptive Statistics of Proportion of Owned Capital

Descriptive Statistics	Value
Mean	80.28
Standard Deviation	24.53
Minimum	20
Maximum	100
Skewness	-0.806

Regarding the proportion of borrowed funds in the total capital structure (Table 4.10), 52.2 per cent of the firms are not using any borrowed funds for financing their investment, 5.7 per cent of the firms have financed only up to 20 per cent of their investment through borrowed funds, 20.4 per cent of the firms have financed from 21 to 40 per cent of their investment through borrowed funds, 14.6 per cent have used from 41 to 60 per cent borrowed funds and 7 per cent of the firms have used above 60 per cent borrowed funds for their investment.

The descriptive statistics of the proportion of borrowed funds is given in Table 4.10a. From Table 4.10a, it can be seen that the sample units have used borrowed funds for financing their investment varying from 10 per cent to 100 per cent with a mean of 45.77 per cent and standard deviation of 23.37 per cent. The skewness factor of distribution of borrowed fund mobilized is 0.962, which is positive indicating that majority of respondents have mobilized lesser proportion of borrowed funds.

Table 4.10

Proportion of Borrowed Capital

Sl. No.	Proportion	No. of Respondents	Percentage to Total
1	No Borrowed Funds	82	52.2
2	Up to 20 Per cent Borrowed Funds	9	5.7
3	21 to 40 Per cent Borrowed Funds	32	20.4
4	41 to 60 Per cent Borrowed Funds	23	14.6
5	Above 60 Per cent Borrowed Funds	11	7.0
	Total	157	100.0

Source: Primary Data

Table 4.10a

Descriptive Statistics of the Proportion of Borrowed Capital

Descriptive Statistics	Value
Mean	45.77
Standard Deviation	23.37
Minimum	10
Maximum	100
Skewness	0.962

In order to see whether there is any significant difference in the usage of owned fund, borrowed fund and fund from Government in the form of subsidy or assistance among the units engaged in manufacturing and service activities t – test has been administered. The result of the analysis presented in Table 4.11 shows that there is no statistically significant difference between manufacturing and service sector organizations with respect to owned funds (t = 0.305, P > 0.05), borrowed funds (t = 1.031, P > 0.05) and government subsidy and assistance (t = 0.124, P > 0.05).

Table 4.11

Distribution of Micro Enterprises According to Nature of Business and Source of Fund (Test of Significance using t – Test)

Sl. No.	Nature of Business	N	Mean	SD	t	df.	P
Owned Funds							
1	Manufacturing	119	79.93	24.32	0.345	147	0.731^{NS}
2	Service	30	81.67	25.74			
Borrowed Funds							
1	Manufacturing	60	44.38	22.45	1.031	73	0.306^{NS}
2	Service	15	51.33	26.82			
Government Subsidy/ Assistance							
1	Manufacturing	8	28.13	17.92	0.124	9	0.904^{NS}
2	Service	3	26.67	15.28			

NS: Not significant at 5 per cent level

ANOVA test has been carried out to know whether there exist any significant differences in the usage of various sources of fund among the units which are engaged in producing various types of products or rendering various services. It is found from the result of ANOVA test presented in Table 4.12 that, there is no statistically significant difference exist in the usage of both owned fund (F = 0.765, P > 0.05) and borrowed fund ($F = 1.154$, $P > 0.05$) among the micro enterprises which are producing different type of products or rendering different type of services.

Table 4.12

Distribution of Micro Enterprises According to Nature of Product/Service and Capital Structure (Test of Significance using ANOVA)

Capital Structure – Owned Funds						
Sl. No.	Type of Product and Service	N	Mean	SD	F	P
1	Rubber, Plastic, Clay and Cement Based	16	73.25	23.19	0.765	0.598^{NS}
2	Wood and Steel Based	25	80.60	24.55		
3	Garments	11	85.45	19.55		
4	Health Care	14	82.86	24.94		
5	Food Products	27	81.48	24.33		
6	Electrical, Electronics and Computer Base	20	87.00	24.25		
7	Others	36	75.97	26.88		
Capital Structure – Borrowed Funds						
1	Rubber, Plastic, Clay and Cement Based	10	42.80	11.53	1.154	0.341^{NS}
2	Wood and Steel Based	14	46.07	26.83		
3	Garments	5	32.00	16.05		
4	Health Care	6	35.83	24.98		
5	Food Products	14	53.57	26.99		
6	Electrical, Electronics and Computer Base	7	58.57	22.30		
7	Others	19	43.42	23.37		

NS: Not significant at 5 per cent level

Project Evaluation

The enterprises before making investment in a project, the projects are evaluated for its profitability by using various capital budgeting techniques. The various type of capital budgeting techniques used are traditional methods like pay back period method and average rate of return method and modern methods like net present value method, internal rate of return method and profitability index method. It is disclosed from the Table 4.13 that out of the 157 sample enterprises 57.3 per cent of the units have not made any formal analysis before making the investment, 41.4 per cent have assessed the profitability of the projects by calculating average rate of return, 16.6 per cent calculated pay back period, 7.6 per cent have used net present value technique, 0.6 per cent have used internal rate of return method and only 1.3 per cent have used profitability index method.

Table 4.13
Methods of Evaluating Project Proposals

Sl. No.	Methods	No. of Respondents	Percentage to Total (out of 157)
1	Pay Back Period	26	16.6
2	Average Rate Return Method	65	41.4
3	Net Present Value method	12	7.6
4	Internal Rate of Return Method	1	0.6
5	Profitability Index Method	2	1.3
6	No Formal Analysis	90	57.3

Source: Primary Data

Financial Plan

The preparation of financial plan is very important in determining the direction to which fund is utilized in future. From Table 4.14, it can be seen that 83.4 per cent of the units are not preparing any financial plan. From the remaining 26 units, which are preparing financial plan only 3 units are having long term financial plan, 10 units have medium term financial plan and 13 units have short term financial plan.

Table 4.14
Preparation of Financial Plan

Sl. No.	Status	No. of Respondents	Percentage to Total
1	Long Term Financial plan	3	1.9
2	Medium Term Financial plan	10	6.4
3	Short Term Financial plan	13	8.3
4	No Financial Plan	131	83.4
	Total	157	100.0

Source: Primary Data

Working Capital Management

Working capital is the fund which is required for the day to day working of the business. The details of the working capital requirement of the micro enterprises presented in Table 4.15 reveal that out of 157 sample enterprises 25.5 per cent of them require working capital up to Rs.25000, 31.2 per cent of them using working capital of Rs.25001 to Rs.50000, 12.1 per cent require working capital of Rs.50001 to

Rs.100000 and the remaining 31.2 per cent of them require working capital of above Rs.100000.

Table 4.15
Working Capital Requirement

Sl. No.	Working Capital	No. of Respondents	Percentage to Total
1	Up to Rs.25,000	40	25.5
2	Rs.25,001 – 50,000	49	31.2
3	Rs.50,001 – 1,00,000	19	12.1
5	Above Rs.1,00,000	49	31.2
	Total	157	100.0

Source: Primary Data

The details relating to the financing of working capital requirement of these enterprises given in Table 4.16 shows that, about 43.9 per cent of the units surveyed are financing their working capital requirement only through owned funds, 24.2 per cent finances their working capital requirement only through borrowed funds and the remaining 31.8 per cent of the enterprises financing their working capital requirement through both owned and borrowed funds.

Table 4.16
Financing of Working Capital Requirement

Sl. No.	Type of Financing Working Capital	No. of Respondents	Percentage to Total
1	Only through Owned Funds	69	43.9
2	Only through Borrowed Funds	38	24.2
3	Through Owned and Borrowed Funds	50	31.8
	Total	157	100.0

Source: Primary Data.

The working capital requirement of a firm can be formally estimated by estimating the amount of current asset and current liabilities. But it is found from Table 4.17 that only 10.8 per cent of the units are formally estimating their working capital requirement through estimating the amount of current assets and current liabilities. The amount of working capital requirement is determined on the basis of past experience of the persons concerned among 52.2 per cent of the units while the remaining 36.9 per cent of the units are not formally estimating their working capital requirement. They are meeting their working capital needs as and when the need arises.

Table 4.17
Method of Estimating Working Capital Requirement

Sl. No.	Method of Estimating Working Capital	No. of Respondents	Percentage to Total
1	Through Estimating current assets and Current Liabilities	17	10.8
2	Determining Working Capital Based on Past Experience	82	52.2
3	No Formal Estimate of Working Capital Requirement	58	36.9
	Total	157	100.0

Source: Primary Data

Inventory Management

The amount of working capital requirement of the micro and small scale units are generally influenced by the requirement of raw materials, receivables, payables and the requirement of cash. Raw materials are the major component of working capital in the case of manufacturing units. The frequency of purchase of raw materials significantly affects the amount of working capital. The higher the frequency, the lesser will be the amount of working capital requirement but the cost of purchase will be high. If the frequency of purchase is less, then the amount of working capital requirement and the cost of carrying inventory will be more while the cost of purchase will be less. If the firm makes purchases based on economic order quantity, then the cost of carrying and cost of purchase will be the optimum. It is found from Table 4.18 that 2 firms are making their purchase of raw materials once in a day, 42 firms makes the purchases once in a week, 17 firms makes the purchases once in a month and 95 firms makes the purchases as and when needed. The remaining one firm makes the purchase of raw material as and when it is available.

Table 4.18
Frequency of Raw Material Purchase

Sl. No.	Frequency of Raw Material Purchase	No. of Respondents	Percentage to Total
1	Once in a Day	2	1.3
2	Once in a Week	42	26.8
3	Once in a Month	17	10.8
4	As and When Needed	95	60.5
5	Any Other (as and when available)	1	0.6
	Total	157	100.0

Source: Primary Data

Proper and efficient inventory management reduces the cost of inventory and the overall cost to the firm. A lot of different methods are available for proper inventory management. From Table 4.19, it can be seen that 80.3 per cent of the micro enterprises surveyed are not employing any formal method of inventory management and only 19.7 per cent of the units employing perpetual inventory management system i.e. proper maintenance of inventory records and continuous stock taking as a method of inventory management.

Table 4.19
Method of Inventory Management

Sl. No.	Method of Inventory Management	No. of Respondents	Percentage to Total
1	Perpetual Inventory System	31	19.7
2	No Formal Method	126	80.3
	Total	157	100.0

Source: Primary Data

Purchases Management

The analysis of the details purchases made by the micro enterprises surveyed presented in Table 4.20 reveals that out of 157 units 97 (61.8 per cent) of them are not making purchase of goods on credit basis. Of the remaining 60 units, 20 (12.7 per cent) of them makes credit purchase of only up to 20 per cent of their raw material requirement, 31 units (19.7 per cent) makes credit purchase from 21 to 40 per cent of their raw material requirement and 9 units makes credit purchase of above 40 per cent of their raw material requirement. The descriptive statistics presented in Table 4.20a shows that the credit purchase varies from a minimum of 10 per cent to a maximum of 75 per cent of their material requirement with mean of 28.83 per cent and standard deviation of 14.27. The skewness factor of the distribution is 1.741, which is positive indicating that majority of the units are having lesser proportion credit purchase of their raw material requirement.

Table 4.20
Proportion of Credit Purchases

Sl. No.	Proportion of Credit Purchases	No. of Respondents	Percentage to Total
1	Up to 20 Percentage	20	12.7
2	21 to 40 Percentage	31	19.7
3	Above 40 Percentage	9	5.7
4	No Credit Purchase	97	61.8
	Total	157	100.0

Source: Primary Data

Table 4.20a
Descriptive Statistics of the Proportion of Credit Purchases

Descriptive Statistics	Value
Mean	28.83
Standard Deviation	14.27
Minimum	10
Maximum	75
Skewness	1.741

To test whether there is any significant difference in the proportion of credit purchases among manufacturing and service enterprises t – test has been applied. From the result of the t – test presented in Table 4.21, it is proved that there is no statistically significant difference between manufacturing and service enterprises ($t = 1.048$, $P > 0.05$) with respect to the proportion credit purchases. Again to know whether there is any significant difference in the proportion of credit purchases with respect to micro enterprises engaged in producing various types of products or rendering various type of services ANOVA test has been administered. From the test result presented in Table 4.22, it is clear that there is no statistically significant difference exist among the micro enterprises engaged in producing various type of products or services ($F = 2.044$, $P > 0.05$) with respect to the proportion of credit purchases.

Table 4.21

Distribution of Micro Enterprises According to Nature of Business and Proportion of Credit Purchases (Test of Significance Using t – Test)

Sl. No.	Nature of Business	N	Mean	SD	t	df	P
1	Manufacturing	124	11.73	17.38	1.048	155	0.296[NS]
2	Service	33	8.33	19.97			

NS: Not significant at 5 per cent level

Table 4.22

Distribution of Micro Enterprises According to Nature of Product/Service and Proportion Credit Purchases (Test of Significance using ANOVA)

Sl. No.	Type of Product and Service	N	Mean	SD	F	P
1	Rubber, Plastic, Clay and Cement Based	16	15.94	15.94	2.044	0.063[NS]
2	Wood and Steel Based	27	10.56	13.96		
3	Garments	11	6.36	10.98		
4	Health Care	14	10.36	22.40		
5	Food Products	30	18.33	20.86		
6	Electrical, Electronics and Computer Based	22	5.23	11.80		
7	Others	37	8.38	14.39		

NS: Not significant at 5 per cent level

The analysis of the details of the average period of credit allowed by the suppliers to the micro enterprises surveyed presented in Table 4.23 shows that it is up to 7 days to 37 units (61.7 per cent), 8 to 15 days to 14 units (23.3 per cent) and above 15 days to 9 units (15 per cent). The descriptive statistics given in Table 4.23a shows that the minimum period of credit allowed by suppliers is 2 days and the maximum period is 90 days. The average payment period is 14 days with a standard deviation of 14.08. The skewness of the distribution is 3.322, which is positive indicating that majority of the enterprises are having lesser payment period.

Table 4.23

Average Payment Period

Sl. No.	Frequency	No. of Respondents	Percentage to Total
1	Up to 7 Days	37	61.7
2	8 to 15 Days	14	23.3
3	Above 15 Days	9	15.0
	Total	60	100.0

Source: Primary Data

Table 4.23a

Descriptive Statistics of the Average Payment Period

Descriptive Statistics	Value
Mean	14
Standard Deviation	14.08
Minimum	2
Maximum	90
Skewness	3.322

Sales Management

The **s**ales generate revenue to the firm and therefore, efficient sales management is very important for every organization, especially for micro enterprises. The sales may be either cash sales or credit sales. If the proportion of credit sales is more, there may be the possibility of loss due to bad debt and the increased need of working capital due to the locking up of funds in receivables. The analysis of the proportion of credit sales to total sales of the micro enterprises presented in Table 4.24 discloses that 52 enterprises (33.1 per cent) have no credit sales, 4.5 per cent of the firms are having credit sales up to 20 per cent, 28.7 per cent of the firms are having credit sales from 41 to 50 per cent and about 7.6 per cent of the firms are having credit sales of above 50 per cent.

It can be seen from the descriptive statistics of the proportion of credit sales presented in Table 4.24a that, the proportion of credit sales varies from a minimum of 10 per cent to a maximum of 100 per cent, with a mean of 41.38 per cent and standard deviation of 17.98. The skewness factor is 0.514, which is positive, indicating that majority of the units are having lesser proportion of credit sales.

The result of the t – test conducted to test whether there is any significant difference in the proportion of credit sales among manufacturing and service enterprises presented in Table 4.25 shows that there is statistically significant difference in the proportion of credit sales among these two sectors (t = 2.984, P <0.01).

Table 4.24

Proportion of Credit Sales

Sl. No.	Proportion	No. of Respondents	Percentage to Total
1	Up to 20 Percentage	7	4.5
2	21 to 40 Percentage	45	28.7
3	41 to 50 Percentage	41	26.1
4	Above 50 Percentage	12	7.6
5	No Credit Sales	52	33.1
	Total	157	100.0

Source: Primary Data

Table 4.24a

Descriptive Statistics of the Proportion of Credit Sales

Descriptive Statistics	Value
Mean	41.38
Standard Deviation	17.98
Minimum	10
Maximum	100
Skewness	1.021

Table 4.25

Distribution of Micro Enterprises According to Nature of Business and Proportion of Credit Sales (Test of Significance Using t – Test)

Sl. No.	Nature of Business	N	Mean	SD	t	df	P
1	Manufacturing	124	30.60	24.84	2.984	155	0.003*
2	Service	33	16.67	19.55			

*significant at 1 per cent level

The ANOVA test is carried out to see whether there is any significant difference in the proportion of credit sales between micro enterprises producing various types of products. From the result presented in Table 4.26, it is observed that there is no statistically significant difference in the proportion of credit sales with respect to the different types of micro enterprises (F = 1.374, P > 0.05).

Table 4.26
Distribution of Micro Enterprises According to Nature of Product/Service and Proportion of Credit Sales (Test of Significance using ANOVA)

Sl. No.	Type of Product and Service	N	Mean	SD	F	P
1	Rubber, Plastic, Clay and Cement Based	16	28.44	26.38	1.374	0.229^{NS}
2	Wood and Steel Based	27	29.44	28.40		
3	Garments	11	31.82	18.20		
4	Health Care	14	27.86	24.78		
5	Food Products	30	33.17	22.03		
6	Electrical, Electronics and Computer Base	22	14.77	16.87		
7	Others	37	27.97	26.65		

NS: Not significant at 5 per cent level

The data relating to the average collection period presented Table 4.27 shows that it is up to 7 days for 36 units (34.6 per cent), 8 to 15 days for 33 units (31.7 per cent) and above 15 days for the remaining 35 units (33.7 per cent). The descriptive statistics of the average collection period presented in Table 4.27a shows that the average collection period varies from 2 to 180 days with a mean of 23 days and a standard deviation of 29.21. The skewness factor of the distribution is 3.686, which is positive, indicating that majority of the enterprises have lesser average collection period.

Table 4.27
Average Collection Period

Sl. No.	Average Collection Period	No. of Respondents	Percentage to Total
1	Up to 7 Days	36	34.6
2	8 to 15 Days	33	31.7
3	Above 15 Days	35	33.7
	Total	104	100.0

Source: Primary Data

Table 4.27a

Descriptive Statistics of the Average Collection Period

Descriptive Statistics	Value
Mean	23
Standard Deviation	29.21
Minimum	2
Maximum	180
Skewness	3.686

Cash Management

Cash is an important component of working capital. Holding of too much cash is costly to the firm and will not yield any additional return. At the same time too little cash holding may make the firm unable to encash the opportunities. Table 4.28 discloses the details of the average amount of cash kept in the business. It shows that 48 firms are keeping an average of up to Rs.2000 liquid cash in the business, 66 firms are keeping liquid cash of Rs.2,001 to Rs.5,000 in the business, 21 firms are keeping Rs.5,001 to Rs.10,000 and the remaining 23 firms are keeping above Rs.10,000 cash in the business.

The descriptive statistics of cash holding presented in Table 4.28a reveals that the average cash holding of the sample micro enterprises varies from a minimum of Rs.500 to a maximum of Rs.40,000 with a mean of Rs.6582 and standard deviation of 7159.3. The skewness factor is 2.269, which is positive, indicating that majority of the enterprises are keeping lesser amount of cash.

Table 4.28

Average Amount of Cash Kept in the Business

Sl. No.	Amount of Cash	No. of Respondents	Percentage to Total
1	Up to Rs.2,000	48	30.6
2	Rs.2,001 – 5,000	66	42.0
3	Rs. 5,001 – 10,000	21	13.4
5	Above Rs.10,000	23	14.0
	Total	157	100.0

Source: Primary Data

Table 4.28a
Descriptive Statistics of the Average
Amount of Cash Kept in the Business

Descriptive Statistics	Value
Mean	6582
Standard Deviation	7159.3
Minimum	500
Maximum	40000
Skewness	2.269

Budgeting

Preparation of cash budget helps the enterprises to estimate the future inflow and outflow of cash. Regarding the preparation of cash budget among the micro enterprises surveyed only 29 units are preparing cash budget and the remaining 128 units are not preparing any cash budget. Of the 29 units which are preparing cash budget 26 units are preparing it for a period of one month in advance, 3 units are preparing it for 2 months in advance and none of the units are preparing cash budget for more than 2 months in advance.

Table 4.29
Preparation of Cash Budget

Sl. No.	Period of Cash Budget	No. of Respondents	Percentage to Total
1	One Month	26	16.6
2	Two Months	3	1.9
3	Not Preparing Cash Budget	128	80.5
	Total	157	100.0

Source: Primary Data

Profit and Profit Appropriation

Profit is the measuring yard of success of any enterprise. It can be seen from Table 4.30 that out of the 157 units surveyed 143 units are making profit, 6 units are in break even and the remaining 8 units are making loss. Regarding the amount of annual profit (Table 4.31) 29 firms (20.2 per cent) are making up to Rs.25,000 as annual profit, 41 firms (28.7 per cent) are making Rs.25,001 to 50,000 as annual profit, 42 firms (29.4 per cent) are making Rs.50,001 to 1,00,000 as annual profit and 31 firms (21.7 per cent) are making above Rs.1,00,000 as annual profit. The distribution of the firms according to their percentage of profit presented in Table 4.32 shows that 9 out of 143 enterprises are making profit up to 5 per cent, 50 firms each are making profit between 6 to 10 per cent, and 11 to 15 per cent profit, 24 firms are making 16 to 20 per cent profit and 10 firms are making above 20 per cent profit.

Table 4.30
Profitability of Business

Sl. No.	Profitability	No. of Respondents	Percentage to Total
1	In Profit	143	91.1
2	In Loss	8	5.1
3	In Break Even	6	3.8
	Total	157	100.0

Source: Primary Data

Table 4.31
Annual Profit

Sl. No.	Profit	No. of Respondents	Percentage to Total
1	Up to Rs.25,000	29	20.2
2	Rs.25,001 – 50,000	41	28.7
3	Rs.50,001 – 1,00,000	42	29.4
4	Above Rs.1,00,000	31	21.7
	Total	143	100.0

Source: Primary Data

Table 4.32
Rate of Profit

Sl. No.	Rate of Profit	No. of Respondents	Percentage to Total
1	Up to 5 Per cent	9	6.2
2	6 - 10 Per cent	50	35.0
3	11 – 15 Per cent	50	35.0
4	16 – 20 Per cent	24	16.8
5	Above 20 Per cent	10	7.0
	Total	143	100.0

Source: Primary Data

Table 4.33

Distribution of Micro Enterprises According to Nature of Business and Rate of Profit

(Test of Significance using t - Test)

Nature of Business	N	Mean	SD	t	df	P
Manufacturing	113	12.96	4.99	3.359	141	0.001**
Service	30	17.0	8.43			

** Significant at 1 per cent level.

In order to test whether there is any significant difference in the rate of profit of manufacturing and service sector enterprises t – test has been administered. The result of the test shows that, there exist statistically significant difference ($t = 3.359$, $P < 0.01$) between manufacturing and service sector with regard to the percentage of profit. The service sector enterprises have reported higher percentage of profit (Mean = 17, SD = 8.43) as compared to the manufacturing sector enterprises (Mean = 12.96, SD = 4.99).

The diagrammatic representation of the comparison of average percentage of profit among manufacturing and service sector enterprises are shown in Figure 4.1

Figure 4.1

Comparative Analysis of the Mean Profit of Manufacturing and Service Sector Enterprises

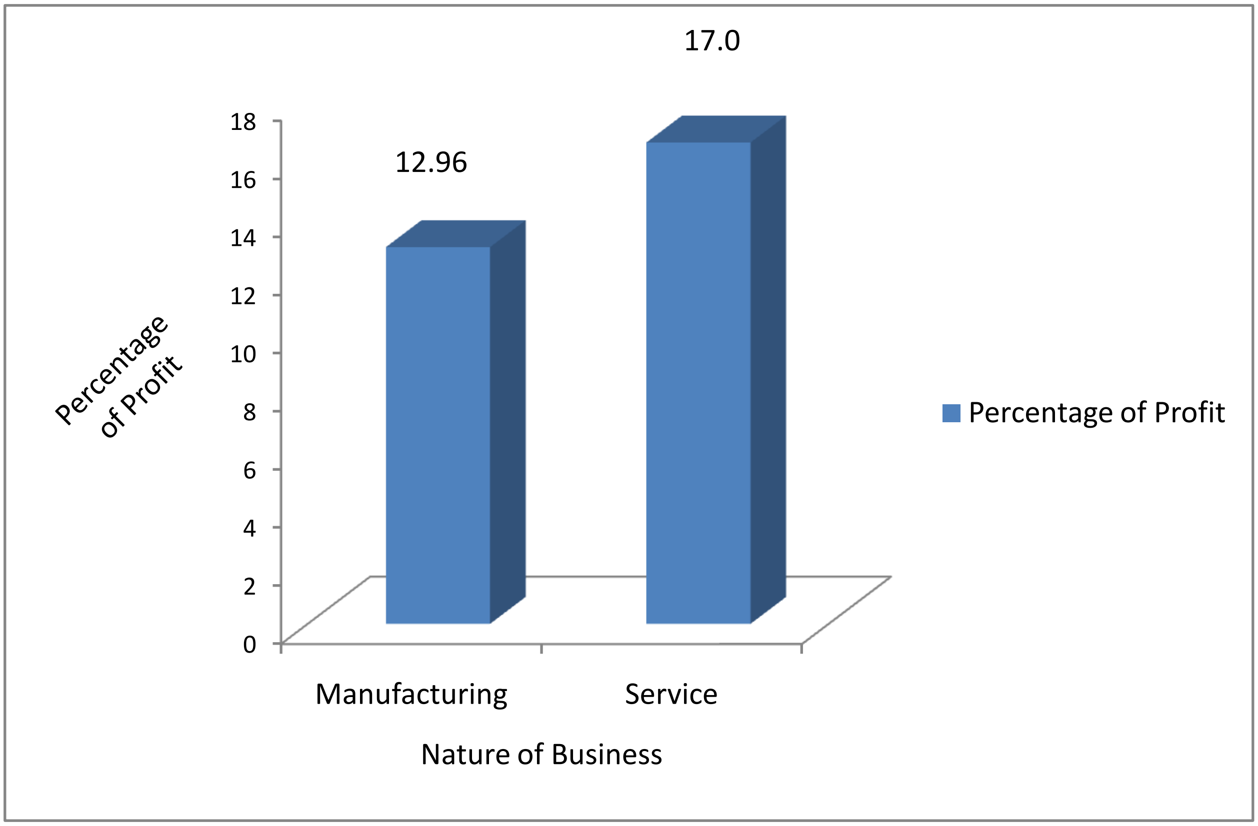


Table 4.34

Distribution of Micro Enterprises According to Type of Product/Service and Rate of Profit (Test of Significance using ANOVA)

Type of Product and Service	N	Mean	SD	F	P
Rubber, Plastic, Clay and Cement Based	15	10.13	2.45	2.247	0.042*
Wood and Steel Based	23	12.52	4.91		
Garments	11	13.73	4.29		
Health Care	13	16.62	7.03		
Food Products	30	13.67	5.03		
Electrical, Electronics and Computer Based	21	16.24	6.82		
Others	32	13.63	7.49		

*Significant at 5 per cent level.

To test whether there is any significant difference in the rate of profit of different type of micro enterprises, ANOVA test has been administered. From the result of the test presented in Table 4.34, it can be concluded that there exist significant difference in the rate of profit among the enterprises producing different type of product and services ($F = 2.363$, $P < 0.05$). The highest average rate of profit is for health care sector (Mean = 16.62, SD = 7.03). LSD (Least Significant Difference) comparison showed that the average rate of profit of health care sector differ significantly with rubber, plastic, clay and cement based products (Mean = 10.13, SD = 2.45) and wood and steel based sector (Mean = 12.52, SD = 4.91). Similarly, the average rate of profit of firms engaged in electrical, electronics and computer based products and services (Mean = 16.55, SD = 6.84) differ significantly with rubber, plastic, clay and cement based products (Mean = 10.13, SD = 2.45) and wood and steel based sector (Mean = 12.52, SD = 4.91).

The diagrammatic representation of the comparison of the average rate of profit among the different type of enterprises is shown in Figure 4.2.

Figure 4.2

Comparative Analysis of the Mean Profit of Different Type of Micro Enterprises

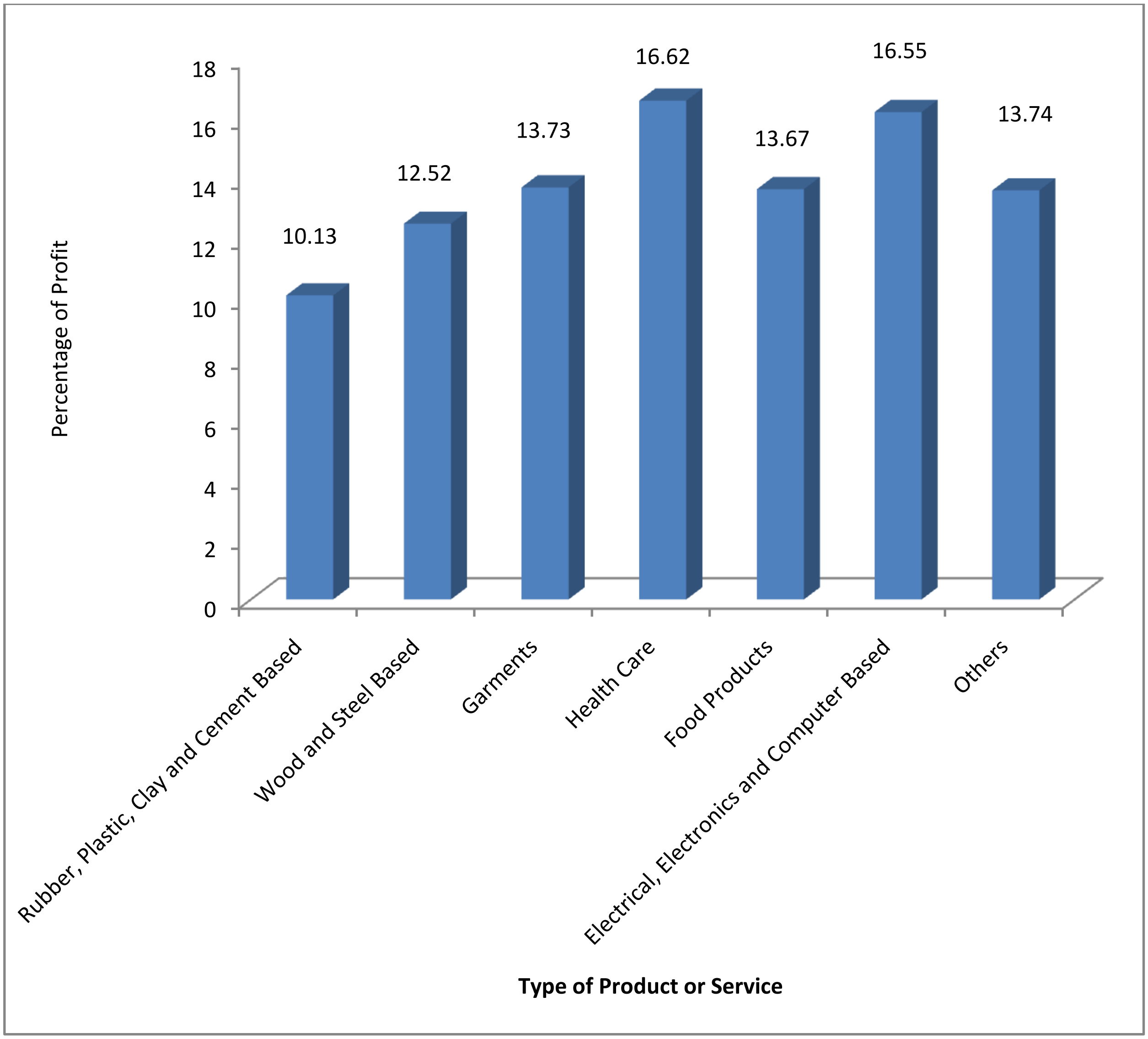


Table 4.35 presents the distribution of the firms according to their investment and the rate of profit. It can be seen from the Table that, the average rate of profit of firms having investment up to Rs.5,00,000 is 17.19 per cent, which is 13.88 per cent for firms having investment from Rs.5,00,001 to 10,00,000 and 11.84 per cent for firms having above Rs.10,00,000 investment. ANOVA test has been administered to check whether there is any significant difference in the average rate of profit among the enterprises belongs to different investment categories. The result shows that there exist statistically significant difference in the rate of profit among the enterprises belong to different investment categories.

The highest average rate of profit is for enterprises belongs the investment category of up to Rs.5,00,000 (Mean = 17.19, SD = 7.24). LSD (Least Significant Difference) comparison showed that the average rate of profit of investment category of up to Rs.5,00,000 differ significantly with enterprises belongs to the investment category of Rs.5,00,001 to Rs.10,00,000 (Mean = 13.88, SD = 5.88) and enterprises belongs to the investment category of above Rs.10,00,000(Mean = 11.84, SD = 4.77).

Table 4.35

Investment wise Distribution of Micro Enterprises According to Rate of Profit

(Test of Significance using ANOVA)

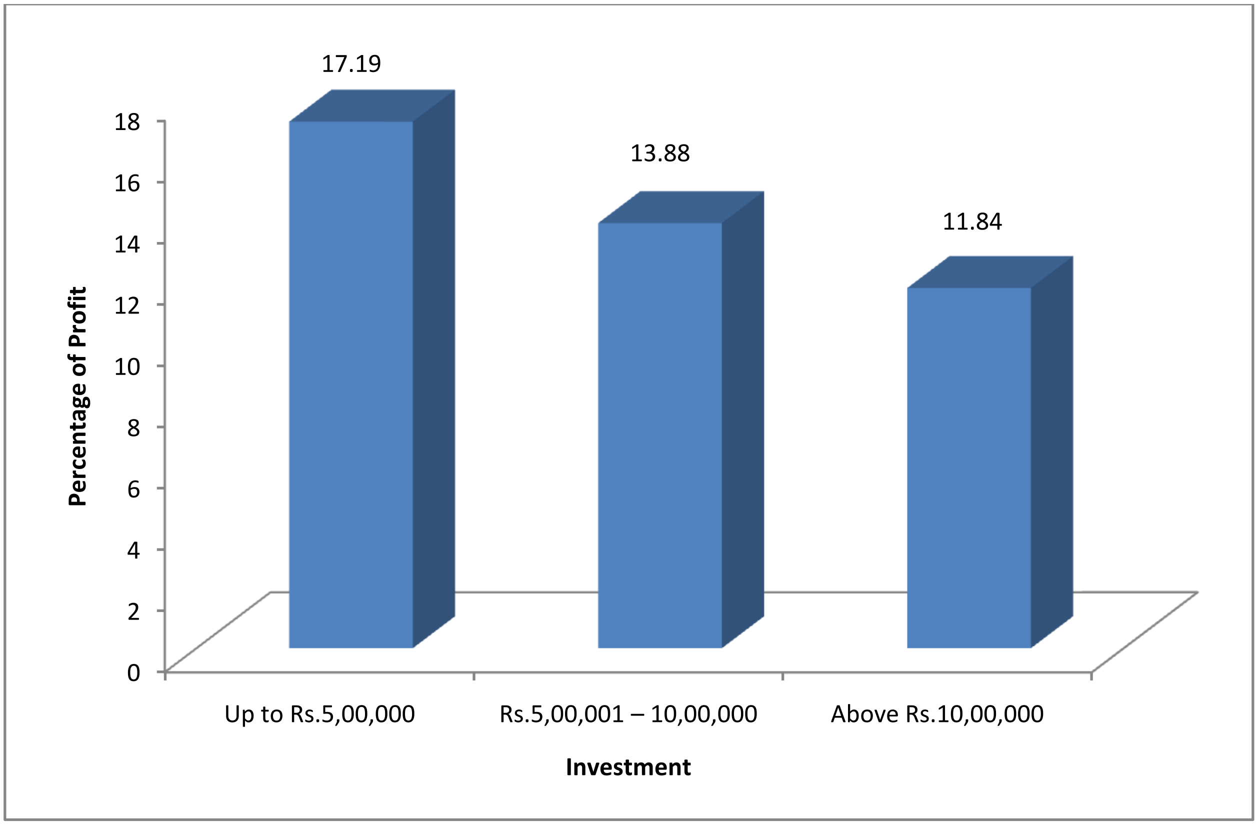
Investment	N	Mean	SD	F	P
Up to Rs.5,00,000	27	17.19	7.24	7.371	0.001**
Rs.5,00,001 – 10,00,000	67	13.88	5.88		
Above Rs.10,00,000	49	11.84	4.77		

**Significant at 1 per cent level.

The diagrammatic representation of the comparison of average rate of profit among enterprises belongs to different investment categories are shown in Figure 4.3

Figure 4.3

Comparative Analysis of the Average Profit of Enterprises Belongs Different Investment Categories



Generally firms are retaining a certain percentage of their profit for financing their future development. But as per Table 4.36, it is seen that 47 micro enterprises which are making profit are not retaining any profit for future development, 24 units are retaining up to 20 per cent of their profit, 48 units are retaining 21 to 40 per cent of profit and the remaining 24 units are retaining above 40 per cent of their profit. The result of t – test conducted to test whether there is any significant difference in the percentage of profit retained by manufacturing and service organizations shows that there is no statistically significant difference exists among manufacturing and service enterprises with respect to the percentage of profit retained ($t = 1.374$, $P > 0.05$).

Table 4.36
Percentage of Profit Retained for Future Development

Sl. No.	Profit	No. of Respondents	Percentage to Total
1	Not Retaining Profit	47	32.9
2	1-20 Per cent of Profit Retained	24	16.8
3	21-40 Per cent of Profit Retained	48	33.5
4	Above 40 Per cent of Profit Retained	24	16.8
	Total	143	100.0

Source: Primary Data

Table 4.37
Distribution of Micro Enterprises According to Nature of Business and Percentage of Profit Retained (Test of Significance using t – Test)

Nature of Business	N	Mean	SD	t	df	P
Manufacturing	112	22.68	21.65	1.374	140	0.172^{NS}
Service	30	16.83	16.53			

The ANOVA test conducted to test whether there is any significant difference in the percentage profit retained by various type of micro enterprises presented in Table 4.38 also reveals that there is no statistically significant difference in the percentage of profit retained by various type of enterprises ($F = 1.465$, $P > 0.05$).

Table 4.38
Distribution of Micro Enterprises According to Nature of Product/Service and Percentage of Profit Retained (Test of Significance using ANOVA)

Type of Product and Service	N	Mean	SD	F	P
Rubber, Plastic, Clay and Cement Based	15	15.00	14.14	1.465	0.195^{NS}
Wood and Steel Based	23	15.43	18.33		
Garments	11	26.82	20.89		
Health Care	13	23.08	19.95		
Food Products	29	17.76	21.86		
Electrical, Electronics and Computer Based	20	24.25	24.67		
Others	31	28.06	20.64		

NS: Not significant at 5 per cent level.

Similarly, ANOVA test is also conducted to see whether there is any significant difference in the percentage profit retained by various categories of enterprises according to the amount of investment. The result presented in Table 4.39 proves that there is significant difference among the various investment categories with respect to the percentage of profit retained (F = 14.913, P < 0.01).

Table 4.39
Investment wise Distribution of Micro Enterprises According to Percentage of Profit Retained (Test of Significance using ANOVA)

Investment	N	Mean	SD	F	P
Up to Rs.5,00,000	26	6.92	10.96	14.604	<0.0005**
Rs.5,00,001 – 10,00,000	67	19.78	19.39		
Above Rs.10,00,000	49	31.43	21.60		

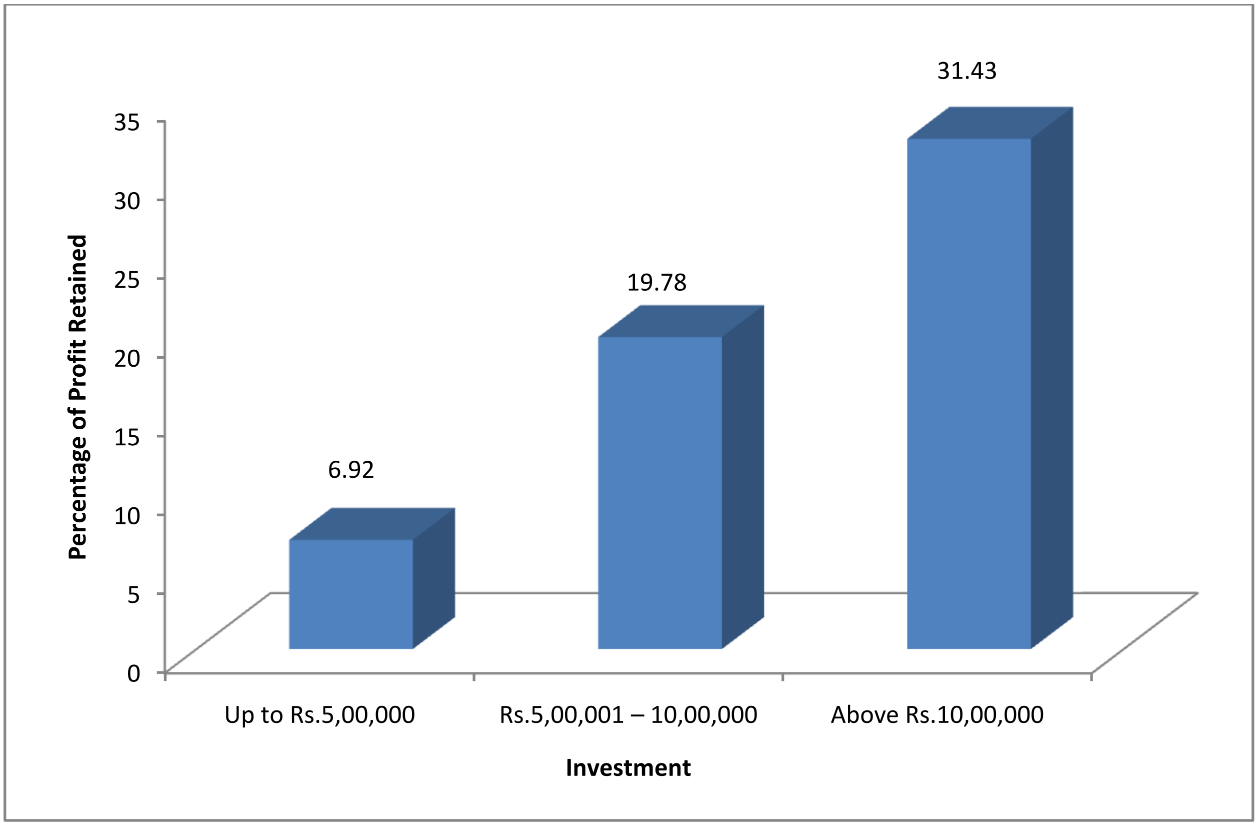
**Significant at 1 per cent level.

The highest average rate of profit retained is for enterprises belongs the investment category of above Rs.10,00,000 (Mean = 31.43, SD = 23.46). LSD (Least Significant Difference) comparison showed that the average rate of profit of investment category of above Rs.10,00,000 differ significantly with respect to enterprises belongs to the investment category of Rs.5,00,001 to Rs.10,00,000 (Mean = 19.78, SD = 19.39) and enterprises belongs to the investment category of up to Rs.5,00,000(Mean = 6.92, SD = 10.96).

The diagrammatic representation of the comparison of average rate of profit retained among enterprises belongs to different investment categories are shown in Figure 4.4.

Figure 4.4

Comparative Analysis of the Average Profit Retained by Enterprises Belongs Different Investment Categories



Computerization

Computerization of accounting and financial management activities will help the firm to make their activities efficient. Out of the 157 sample units only 41 units are using some software support for accounting and financial management, while the other 116 units are not using any computer support for accounting and financial management and they are manually doing all accounting work.

Table 4.40

Number of Units Using Software Support for Accounting and Financial Management

Sl. No.	Using or Not Using Software	No. of Respondents	Percentage to Total
1	Using Software	41	26.1
2	Not Using Software	116	73.9
	Total	157	100.0

Source: Primary Data

Total computerization of the accounting and financial management activities are implemented in the case of 6 units (3.8 per cent), 33 units are using computer support for accounting, 9 units are using it for inventory management, 23 firms are using it for purchase and sales management and no firm is using it for working capital management.

Table 4.41
Type of Software or Computer Support Using

Sl. No.	Type	No. of Respondents	Total Number of Respondents	Percentage to Total
1	Accounting	33	157	21.0
2	Inventory Management	9	157	5.7
3	Working Capital Management	0	157	0.0
4	Purchase and Sales Management	23	157	14.6
5	Total Computerized Solutions	6	157	3.8

Source: Primary Data

Preparation and Use of Financial Statements

Decision making is one of the most important functions of management. The preparation and use of various financial statements will help the firm to take appropriate decisions. From the analysis relating to the preparation and use of various financial statements presented in Table 4.42 shows that out of 157 units only 52 units (33.1 per cent) are preparing and using Trading and Profit and Loss Account (Income Statement), 45 units are using Balance Sheet, 2 units are using fund flow statement, 14 units are using working capital statement, 16 firms are using ratio analysis, 7 firms are using budget and budgetary control and no firm is using standard costing.

Table 4.42
Preparation and Use of Financial Statements

Sl. No.	Type	No. of Respondents Using/Preparing	Total Number of Respondents	Percentage to Total
1	Trading and P&L A/C (Income Statement)	52	157	33.1
2	Balance Sheet (Position Statement)	45	157	28.7
3	Fund Flow Statement	2	157	1.3
5	Working Capital Statement (Forecast)	14	157	8.9
6	Ratio Analysis	16	157	10.2
7	Budgetary Control	7	157	4.5
8	Standard Costing	0	157	0.0

Source: Primary Data

The respondents were asked to give their suggestions for improving the financial management practices of micro enterprises. They have given many suggestions. The important among them are providing specialized training to the entrepreneurs in the area of accounting and financial management, providing customized software solutions suitable for micro enterprises for accounting and financial management and make available the advice and support of experts in the area of accounting and financial management to these micro enterprises.

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CHAPTER V

CASE STUDY ON THE FINANCIAL MANAGEMENT PRACTICES OF SMALL ENTERPRISES IN KERALA

The MSMED Act 2006 defines a small enterprise as an enterprise engaged in the manufacture or production of goods whose investment in plant and machinery exceeds twenty five lakh rupees but does not exceed five crore rupees. But in the case of enterprises engaged in providing or rendering of services, the investment in equipment exceeds ten lakh rupees but does not exceed two crore rupees is termed as small enterprises.

For the purpose of this study on the financial management practices of micro and small enterprises in Kerala, a sample of 160 micro and small enterprises i.e. 80 each from Thiruvananthapuram and Thrissur districts were selected at random. The data collected from these enterprises were analysed carefully by keeping in view the objectives of the study. In the analysis, it is found that out the 160 sample units 157 are in the category of micro enterprises and 3 are in the category of small enterprises. Therefore, detailed analysis has been done separately for micro and small enterprises. The detailed analysis of the data collected from 157 micro enterprises has presented in previous chapter. This chapter is devoted to analyse in detail the data collected form the 3 small enterprises.

The small enterprises selected for the purpose are Mitraniketan Bakery and Food Processing Unit, Vellanad, Thiruvananthapuram, Zyxware Technolgies Private Limited, Marappalam, Pattom, Thiruvananthapuram and Kerala Travels Interserve Limited, Vellayambalam, Thiruvanathapuram. The Mitraniketan Bakery and Food Processing Unit was formed as a charitable society, located in rural area, engaged in manufacturing food items and are employing 10 persons. But the other two units Zyxware Technolgies and Kerala Travels Interserve Limited were formed as joint stock companies located in urban area and are engaged in rendering services like software development and travel agency respectively. 25 persons are employed in Zyxware Technolgies and 75 persons are employed in Kerala Travels Interserve Limited. The investment of these firms in fixed assets is more than Rs.25 lakhs and their annual turnover varies from Rs.20 lakhs to Rs.5 crores.

Regarding the financial management practices none of these enterprises were promoted by persons having professional or academic qualifications in accounting or financial management. But they all are employing qualified persons for accounting and financial management and therefore, they are following the good financial management practices to a certain extent.

An analysis of the capital structure of these organisations reveals that Mitraniketan Bakery and Food Processing Unit finances all its investment from owned funds while Zyxware Technolgies uses 60 per cent owned funds and 40 per cent borrowed funds and Kerala Travels Interserve Limited uses 70 per cent owned funds and 30 per cent borrowed funds. All these three enterprises before making investment uses proper investment evaluation by using the modern project evaluation techniques like net present value method, internal rate of return method or profitability index method. This will help them to identify the profitability of each investment opportunity and to select the best investment alternative.

The preparation of a financial plan will help these firms to determine the direction to which funds have to be diverted in future. By understanding the importance of financial plan, all these three enterprises are preparing medium to long term financial plan. As regards working capital requirement, Rs.3,00,000 lakh each is required to finance working capital needs of Mitraniketan Bakery and Food Processing Unit and Kerala Travels Interserve Limited and Rs.12,00,000 is required to finance the working capital needs of Zyxware Technolgies. The Mitraniketan Bakery and Food Processing Unit and Zyxware Technolgies are financing the entire amount of working capital from their own sources but Kerala Travels Interserve limited finances their working capital requirement through both owned and borrowed funds. All these firms except Zyxware Technolgies are estimating their working capital requirement by properly estimating the amount of current assets and current liabilities. Zyxware Technolgies are estimating their working capital requirement based on their past experience.

The materials required for these firms are purchased as and when it is needed by these firms except Mitraniketan Bakery and Food Processing Unit. The Mitraniketan Bakery and Food Processing Unit make the purchase of materials based on economic order quantity. The perpetual inventory management system is followed for managing inventory in the case of Mitraniketan Bakery and Food Processing Unit. The other two units are engaged in service related activities and therefore, there is not much scope for inventory management.

Regarding the nature of purchase of goods and services 100 per cent of the purchase of tickets of Kerala Travels Interserve limited is on credit basis for a period of 7 days from the respective airlines and about 80 per cent of their sales are on credit basis for a period up to 15 days. In the case of Mitraniketan Bakery and Food Processing Unit nearly 25 per cent of their purchases and 10 per cent of their sales are on credit basis for a period up to 7 days. But in the case of Zyxware Technolgies, there is no credit purchase, while 100 per cent of their sales are on credit basis for a period up to two weeks. The average cash holding of these organisations for business purpose ranges from Rs.20,000 to Rs.30,000 and all these three organisations are preparing cash budget to know the future inflow and outflow of cash.

The efficiency of the firms is mainly judged on the basis of their profit. As regards profit except Mitraniketan Bakery and Food Processing Unit all the other two units are in profit and are making an average profit of 10 per cent of their turnover. But the Mitraniketan Bakery and Food Processing Unit are in break even. Regarding the retention of their profit Zyxware Technolgies retains 100 per cent of their profit for future development and only 10 per cent of the profit is retained by Kerala Travels Interserve limited.

All these small scale enterprises are using total computerised solution for accounting and financial management activities and are generating and using financial statements like trading, profit and loss account and balance sheet, fund flow statement and working capital statement. They also use the techniques like ratio analysis, budgetary control and standard costing for efficient management of finance. The respondents of all these firms are of the opinion that specialised training in the area of accounting and financial management of small scale enterprises may help to improve the financial management practices of these organisations.

The above analysis leads to the conclusion that the small scale enterprises, even though they are not promoted by persons having formal qualifications in accounting and financial management are following good accounting and financial management practices with the help of professionally qualified employees. This has helped these enterprises to achieve success in their business. Making use of more low cost debt funds may help these enterprises to avail the leverage potential and to enhance their profitability. Similarly, profitability of these enterprises can also be enhanced by reducing the cost of funds through proper purchase and inventory management, efficient debt collection and cash management and by retaining their profit for financing their development activities.

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CHAPTER VI

SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSION

The study on financial management practices of micro and small enterprises in Kerala is carried out with the objective assessing to what extent the MSEs in Kerala is following the formal financial management practices. This chapter is devoted for presenting the findings, recommendations and conclusions. The first part of this chapter deals with the summary of findings, the second part deals with recommendations and the last part deals with conclusion.

FINDINGS

1. The number of MSMEs at all India level had increased from 105.21 lakhs to 447.73 lakhs during the period 2001-02 to 2011-12. It accounted a compound growth rate of 14.07 per cent.
2. The number of employment generated from the MSMEs at all India had increased from 249.33 lakhs to 1012.59 lakhs with a compound growth rate of 13.59 per cent during the same period. The average number of employment generated per unit was 2.37 in 2001-02 which is slightly decreased to 2.26 in 2011-12
3. The market value of fixed asset of these MSMEs during the period 2001-02 to 2011-12 had shown a compound growth rate 20.28 per cent i.e. from Rs.1,54,349 crores to Rs. 1,17,76,939 crores. The average investment per unit had also increased from Rs.1,46,706 to Rs.2,62,868 during the same period.
4. The value of gross output of all MSMEs in India had increased from Rs.2,82,270 crores to Rs.18,34,332 crores during the period from 2001-02 to 2011-12 and recorded a compound growth rate of 18.55 per cent. The average value of output per unit had also increased from Rs.2,68,292 to Rs.4,09,696 during the same period.

5. The number of MSME units registered in Kerala had increased from 1,95,960 units to 2,19,444 units during the period from 2007-08 to 2012-13. It accounted a compound growth rate of 1.90 per cent.
6. The amount of investment of all the MSMEs registered in Kerala had recorded a significant growth from Rs.6,00,255 lakhs to Rs.12,12,674 lakhs with a compound growth of 12.44 per cent during the period of 2007-08 to 2012-13.
7. The number of employment generated by all these MSMEs in Kerala has recorded a compound growth rate of 7.30 per cent during the period of 2007-08 to 2012-13. It has increased from 7,22,860 to 11,03,126 during the same period.
8. The value of goods and services produced by all these units together was Rs.12,57,899 lakhs in 2007-08, which has increased to Rs.43,36,995 lakhs in 2012-13 and accounted a compound growth rate of 22.91 per cent.
9. From among the 14 districts, in terms of number of units, Thiruvananthapuram has the highest share (13.5 per cent), followed by Thrissur (13.2 per cent) and Ernakulam (13 per cent) as on 31st March 2013.
10. Regarding the amount of investment, Ernakulam district leads with a share of 21.1 per cent followed by Thrissur district with a share of 10.1 per cent and Thiruvananthapuram district with a share of 10 per cent.
11. The district wise distribution of the number of employment generated by MSMEs Ernakulam district ranked first with a share of 17.4 per cent, Thiruvananthapuram district ranked second with a share of 13.1 per cent and Thrissur district ranked third with a share of 10.4 per cent.
12. With respect to the value of goods and services produced, Idukki district has the highest share (29.7 per cent), followed by Ernakulam district (19.7 per cent) and Palakkad district (7.9 per cent).
13. As regards the average investment, average employment and average value of output per unit of MSMEs, it is far ahead in Kerala as compared to all India average.

14. The location-wise details of the micro enterprises shows that majority of the manufacturing enterprises are located in rural area, while majority of the service enterprises are located in urban area.
15. Regarding the distribution of micro enterprises according to type of product, majority of the enterprises engaged in rubber, plastic, clay, and cement, wood and steel, health care and food items based are located in rural area, while majority of the enterprises in the field of garments, electrical, electronics and computer and other products and services are located in urban area.
16. Majority of the micro enterprises are started with the intension of self employment (61.8 per cent), followed by additional income (24.2 per cent) and other reasons (14 per cent) like social service, etc.
17. Only 8 out of the 157 enterprises have the promoters who have formal qualifications in finance and accounting and out of the remaining 149 promoters who are not possessing any formal qualifications in finance and accounting, 65 of them have employed qualified persons for accounting and financial management.
18. Only 16 respondents have received some form of training for accounting and financial management and majority of them got it from private training centers.
19. Regarding the capital structure 94.9 per cent of the micro enterprises are using owned funds, 47.8 per cent are using borrowed funds and only 7 per cent got some government subsidy or assistance.
20. Majority of the micro enterprises (51.6 per cent) are using 100 per cent owned funds for financing their investment, 30.6 per cent of the firms are using 41 to 99 per cent owned funds, 12.7 per cent of the firms are using up to 40 per cent owned funds and the remaining 5.1 per cent of the firms are not using any owned fund for financing their investment.
21. Regarding the proportion of borrowed funds majority of the firms (52.2 per cent) are not using any borrowed funds for investment, 5.7 per cent are using up to 20 per cent borrowed funds, 20.4 per cent are using 21 to 40 per cent

borrowed funds, 14.6 per cent are using 41 to 60 per cent borrowed funds and 7 per cent are using above 60 per cent borrowed funds.

22. There is no significant difference in the usage both owned and borrowed funds among manufacturing and service organizations and among micro enterprises producing different type of products or rendering different type of services.
23. Majority of the micro enterprises are not engaging any project evaluation techniques for evaluating the profitability of projects before making investment. 26 units are using pay back period, 65 units are using average rate of return method, 12 units are using net present value method, one unit is using internal rate of return method and 2 units are using profitability index method.
24. Regarding financial plan out of 157 micro enterprises 131 units are not preparing any advance financial plan. Of the remaining 26 units 13 firms are preparing short term financial plan, 10 firms are preparing medium term financial plan and only 3 firms preparing long term financial plan.
25. As regards the working capital requirement 25.5 per cent of the micro enterprises need working capital up to Rs.25000, 31.2 per cent of them need working capital from Rs.25001 to Rs.50000, 12.1 per cent of them require working capital from Rs.50001 to Rs.100000 and 31.2 per cent of the enterprises requires above Rs.100000 as working capital.
26. The working capital is financed only through owned funds by 43.9 per cent of the enterprises, only through borrowed funds by 24.2 per cent and through both owned and borrowed funds by 31.8 per cent.
27. The amount of working capital is determined on the basis of past experiences by majority (52.2 per cent) of the enterprises, formally estimated by estimating the value of current assets and current liabilities by 10.8 per cent of the enterprises and no formal estimate of working is done by 36.9 per cent of the enterprises.
28. Major portion (60.5 per cent) of the enterprises are purchasing raw material as and when they needed, once in a week by 26.8 per cent of the firms, once in a

month by 10.8 per cent of the firms and as and when available by one firm. None of the micro enterprises are using economic order quantity for determining frequency of raw material purchase.

29. For inventory management perpetual inventory system has been used by 19.7 per cent of the firms, while the remaining 80.3 per cent of the firms are not using any formal method of inventory management.
30. Regarding the proportion of credit purchase to total purchase, 61.8 per cent of the firms are not making any credit purchase. The average credit purchase of the remaining enterprises is 28.83 per cent, with a minimum of 10 per cent and a maximum of 75 per cent.
31. It is proved from the test of significances that there is no statistically significant difference exists between manufacturing and service enterprises and among the different type of enterprises according to the type of product or service with regard to the proportion of credit sales.
32. The average payment period of credit purchases varies from 2 days to 90 days with a mean of 14 days. About 61.9 per cent of the firms are getting an average payment period of up to 7 days.
33. The proportion of credit sales to total sales also varies from 10 per cent to 100 per cent with a mean of 41.38 per cent. Among the 157 firms 33.1 per cent of the firms are not making any credit sales.
34. Regarding the proportion of credit sales, there is no statistically significant difference exists between manufacturing and service enterprises and among different type of micro enterprises according type of product or services with respect to proportion of credit sales.
35. Average collection period varies from 2 days to 180 days with a mean of 23 days. Majority of the firms are having collection period up to 15 days.
36. The average amount of cash held by the micro enterprises vary from Rs.500 to Rs.40,000 with a mean of Rs.6582. More than 70 per cent of the firms are holding cash up to Rs.5,000.

37. Majority of the firms (80.5 per cent) are not preparing any cash budget for estimating the future inflow and outflow of cash and 16.6 per cent of the firms are preparing a cash budget for one month in advance.
38. Regarding the profitability of micro enterprises 91.1 per cent of the enterprises are making profit, while 5 per cent of the enterprises are in loss and 3.8 per cent of the enterprises are in break even.
39. Majority of the firms (58.1 per cent) are making a profit of Rs.25,001 to Rs.1,00,000, while 21.7 per cent of the firms are earning a profit of above Rs.1,00,000 and 20.2 per cent of the firms are making up to Rs.25,000.
40. Regarding the rate of profit of the micro enterprises 35 per cent of the firms are earning profit from 6 to 10 per cent and another 35 per cent of the firms are earning a profit from11 to 15 per cent and 16.8 per cent from 16 to 20 per cent, 7 per cent of the firms have above 20 per cent profit and only 6.2 per cent of the firms have up to 5 per cent.
41. The distribution of micro enterprises according to nature of business and rate of profit shows that there is significant difference in the rate of profit among manufacturing (Mean 12.96 per cent) and service organizations (Mean17per cent).
42. There is significant difference in the average rate of profit among the different type of micro enterprises according to their product and services. The health care sector have the highest rate of profit (16.62 per cent), followed by electrical, electronics and computer based sector (16.24 per cent). But rubber, plastic, clay and steel based sector have the least rate of profit (10.13 per cent), followed by wood and steel based sector (12.52 per cent).
43. The investment wise distribution of the rate of profit reveals that there exists a significant difference in the rate of profit among micro enterprises according to the amount of investment. Firms having lower investment have higher rate of profit as compared to firms having higher investment.

44. There are 47 firms which are not retaining any profit for future development. Of the remaining firms which are making profit, 25 firms are retaining up to 20 per cent of their profit, 48 firms are retaining from 21 to 40 per cent of profit and 25 firms are retaining above 40 per cent of their profit.
45. Regarding the retention profit, there is no significant difference exists between manufacturing and service enterprises and among different type of enterprises according to type of product and services with respect to the rate of profit retained. But in the case of enterprises classified on the basis of investment, there is significant difference exist between enterprises having investment up to Rs.5,00,000 (6.92 per cent), investment of Rs.5,00,001 to 10,00,000 (19.78 per cent) and investment above Rs.10,00,000 (31.43per cent).
46. As regards computerization, 73.9 per cent of the micro enterprises are not using any computer assistance for accounting and financial management. They are doing the accounting and financial management activities manually. Those who are using computer assistance are using it mainly for accounting, purchase and sales management and inventory management.
47. Regarding the preparation and use of financial statements, 52 firms (33.1 per cent) are using Trading and Profit and Loss account, 45 firms (28.7 per cent) are using balance sheet, 16 firms (10.2 per cent) are using ratio analysis and 14 firms (8.9 per cent) are using working capital statement for estimating their working capital requirement.
48. The small enterprises are following the accounting and financial management practices and are using total computerized solution for accounting and financial management.

RECOMMENDATIONS

The following recommendations are made on the basis of the finding s of the study to improve the financial management practices of micro and small enterprises in Kerala.

1. The preparation of financial plan is very important in determining the direction to which fund is to be utilized. But about 83 per cent of the micro enterprises in Kerala are not preparing any financial plan. Therefore, steps should be taken to create awareness among the entrepreneurs about the importance of financial plan.
2. Majority of the micro enterprises are not using any borrowed fund for investment, which makes these firms unable to avail the leverage potential. Therefore, these firms should be encouraged to avail the low cost borrowed funds to increase their earnings.
3. Majority of the micro enterprises are not making any formal evaluation of the profitability of the project before making investment. Proper evaluation of investment/project proposals is very essential for the success of every enterprise. Therefore, practical oriented training should be given to them in the area of capital budgeting/investment evaluation. The service of experts in this area is also made available to assist them for investment evaluation.
4. Only about 11 per cent of the micro enterprises in Kerala are formally estimating their working capital requirement and the remaining about 89 per cent of the micro enterprises are either not estimating their working capital requirement or determining it on the basis of past experience. This may not give a true and fair view of their actual requirement of working capital. Therefore, steps should be taken to encourage these firms to properly estimate their working capital requirement, which may avoid the possibility of keeping excess working capital and also the problems due to inadequacy of working capital.
5. With regard to inventory management, majority of the micro enterprises are not following any formal system of inventory management. None of the micro

enterprises are purchasing raw material on the basis of economic order quantity. Therefore, they are to be encouraged to follow proper system of inventory procurement and management which may reduce the over all cost of inventory.

6. About 81 per cent of the micro enterprises are not preparing any cash budget, which may not give a true picture of the inflow and outflow of cash. Therefore, to get a clear idea of the inflow and outflow of cash, the micro enterprises may be encouraged to prepare cash budget properly.

7. About 33 per cent of the micro enterprises are not retaining any profit for future development and only up to 20 per cent of the profit is retained by about 17 per cent of the micro enterprises. This may not be sufficient enough to finance their future development needs. Therefore, these micro enterprises are encouraged to retain more profit to finance their future development needs, which may force the successful development of these enterprises.

8. Only about 26 per cent of the micro enterprises are using computer support for accounting and financial management activities. Steps may be taken to encourage other micro enterprises to computerize their accounting and financial management activities, which will increase efficiency and transparency in this regard.

9. Only very few of the micro enterprises are preparing the financial statements and performing the related financial analysis. The firms which are not preparing the financial statements are not able to understand a true and fair view of their profitability and financial position. Therefore, these micro enterprises are encouraged to prepare their financial statements to understand the profitability and financial position.

10. Provide an in depth training to young entrepreneurs in the theoretical aspects of financial management, which will help them achieve success and growth in their business and also helps to mould them to be big business entrepreneurs.

11. Provide training in modern and computerized financial management practices, which will help to ensure the availability of up to date information, that may reduce the risk of loss and speed up the financial decision making process.
12. Steps may be taken to create awareness among the entrepreneurs and prospective entrepreneurs of micro and small enterprises about the need and importance of financial planning, analysis and control.
13. Training should be given to the entrepreneurs and prospective entrepreneurs of micro and small enterprises in the areas goal setting, performance evaluation and control mechanism, which are highly essential for the successful survival of these enterprises.
14. Trained persons and experts in the area of accounting and financial management have to visit, train and evaluate the accounting and financial management activities of micro and small enterprises on a regular basis and advice them for improving their financial management practices.
15. Steps may be taken to create a separate website or include information in the websites of official agencies in local, national and English language on how these enterprises can maintain proper books of accounts and can implement proper financial management practices.
16. Steps may also be taken to create, design and print booklets containing instructions, formats, etc. for accounting and financial management in regional and English language for facilitating ready reference to entrepreneurs and managers of micro and small enterprises.

CONCLUSION

The micro and small enterprises have a great role in the economic development of the state of Kerala. They are creating a lot of employment opportunities with limited amount of capital by using the domestically available resources. They are the training ground for the new and innovative entrepreneurs. The success of these enterprises mainly depends on efficient financial management. Besides experience, theoretical knowledge is also essential for proper financial management. But many of the entrepreneurs of micro and small enterprises lacks formal educational back ground in financial management and are not financially capable enough to appoint qualified persons as financial mangers. Therefore, in this study an effort has been taken to evaluate the financial management practices of micro and small enterprises in Kerala.

For the purpose of the study a sample 160 micro and small enterprises have been selected at random i.e. 80 MSEs each from Thiruvananthapuram and Thrissur districts. The data were collected from these sample units by using a structured interview schedule. These data were analysed by keeping in view the objectives of the study with the help of statistical software. From the results of the analysis it is found that majority of the micro enterprises in Kerala are not properly following the financial management practices. Their financial management practices are firefighting in nature and are learned basically through experience. Therefore, the entrepreneurs and owner managers of the micro and small enterprises have to be educated properly in the areas of financial planning, project evaluation, working capital management consisting of inventory management, receivables management and cash management, budgeting and profit management for improving their financial management practices. Better and improved financial management practices of these enterprises may lead to their successful functioning and contribute for the development of the nation.

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Appendix I

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Appendix II

INTERVIEW SCHEDULE

A STUDY ON THE FINANCIAL MANAGEMENT PRACTICES OF MICRO AND SMALL ENTREPRISES IN KERALA

This research study is undertaken by me on behalf of KILE for understanding the financial management practices of micro and small enterprises in Kerala. Kindly provide the data required for the study. The data collected from you will be kept confidential and used only for the purpose of research.

Interview Schedule

Profile of the Enterprise or Unit

1. Name and Address of the Unit :

2. Status of the unit : 1. Micro Unit 2. Small Scale Unit

3. Location : 1. Rural 2. Urban

4. Year of Establishment :

5. Nature of Business Activity :
   1. Manufacturing 2. Trading
   3. Service 4. Others (Please Specify)

6. Nature of product or service
   1. Rubber Product 2. Plastic Product
   3. Marine Product 4. Clay Product
   5. Food Product 6. Garments
   7. Wooden Items 8. Pharmaceutical(Ayurvedic, etc)
   9. Engineering
   10. Electronic and Electrical Products
   11. Services (Please specify)……………………………
   12. Others (Please Specify)

7. Nature of Ownership
   1. Sole Trader 2. Partnership
   3. Joint Stock Company 4. Cooperative Society
   5. Others (Please Specify)

8. No. of persons working at present :

9. What is your investment in fixed asset
   1. Up to Rs.1,00,000   2. Rs. 1,00,001 – 5,00,000
   3. Rs. 5,00,001 – 25,00,000   4. Rs. 25,00,001 - 50,00,000
   5. Rs. 50,00,001 – 1,00,00,000   6.Rs.1,00,00,001 – 2,00,00,000
   7. Above Rs.2,00,00,000.

10. Present annual turnover
   1. Up to Rs.1,00,000   2. Rs. 1,00,001 – 5,00,000
   3. Rs. 5,00,001 – 10,00,000   4. Rs.10,00,001 – 50,00,000
   5. Above Rs. 50,00,000

Profile of the Promoter

11. Name :
12. Gender : 1. Male 2. Female
13. Age :
14. Religion and Caste :
15. Education:
   1. Up to Matriculation   2. Technical Qualification(ITI, Diploma, etc)
   3. Under Graduate   4. Graduate
   5. Post Graduate   6. Professional Degree Holder
   7. Others (Please specify)
16. Do you have any previous experience in this line of business?: 1. Yes 2. No
17. What prompted you to start this business?
   1. Self Employment   2. Additional income
   3. Availability of raw material   4. Availability of labour
   5. Govt. Incentives   6. Training Programmes
   7. Others (Please specify)

Financial Management Practices

18. Do you have any professional or academic qualification in accounting or financial management : 1. Yes 2. No
19. If yes, what is your qualification? :
20. If not, are you employing any qualified person for accounting and financial management : 1. Yes 2. No

21. Have you undergone any special training in accounting and financial management? : 1. Yes 2. No.

22. If Yes, from where

1. Govt. Training Centers
2. Professional Training Institutions
3. Private Training Centers
4. Others (Please Specify)

23. How you have mobilized capital for the business?

Sl. No.	Type	Amount	Percentage
1	Owned Funds		
2	Borrowed Funds		
3	Government Subsidy/Assistance		
4	Others (Please specify)		

24. How are you evaluating the merit of proposed capital investment project proposals (Please put a **Tick** mark)

I	Non-Discounted Cash Flow Methods		
	1	Pay Back Period Method	
	2	Average Rate of Return Method	
II	Discounted Cash Flow Methods		
	3	Net Present Value Method	
	4	Internal Rate of Return Method	
	5	Profitability Index Method	
III	No Formal Analysis		
IV	Other Methods (Please Specify)		

25. Do you prepare a financial plan in advance for your organization? 1. Yes 2. No

26. If yes, what is the type of financial plan you prepare?

1. Long Term
2. Medium Term
3. Short Term
4. Any other (Please specify)

27. How much is your working capital requirement: Rs.

28. How you are financing the working capital requirement:

1. Only through owned funds
2. Only through borrowed funds
3. Through owned and borrowed funds
4. Any other source (Please specify)

29. How are you estimating the working capital requirement?

1. Through estimating current asset and current liabilities
2. Determining working capital based on past experience
3. No formal estimate of working capital requirement
4. Other methods (Please specify)

30. How frequently purchases are made:

1. Once in a day
2. Once in a Week
3. Once in a Month
4. Based on Economic Order Quantity
5. As and when needed
6. Any other (Please specify)

31. Are you employing any of the following inventory management system?

1. Perpetual Inventory System
2. ABC Analysis
3. VED Analysis
4. Just in Time Inventory System
5. No formal method
6. Others (Please Specify)

32. How much percentage of your purchases is on credit basis? :

33. What is your average payment period? :

34. How much percentage of your sales is on credit basis? :

35. What is your average collection period? :

36. What is the average amount of cash you are keeping for business purpose? : Rs.

37. Are you preparing a cash budget in advance? : 1. Yes 2. No

38. If Yes, for how long?

1. One month
2. Two months
3. Three months
4. More than Three months

39. Whether your business is in profit or loss

1. In Profit 2. In Loss 3. In Break Even

40. Present annual profit :

1. Up to Rs.10,000
2. Rs. 10,001 – 25,000
3. Rs. 25,001 – 50,000
4. Rs. 50,001 – 1,00,000
5. Rs. 1,00,001 – 2,00,000
6. Rs. 2,00,001 – 5,00,000
7. Above Rs. 5,00,000

41. What is the average rate of profit (In percentages):…………….

42. How much percentage of profit is retained in the business for future development: …

43. Are you using any special software/computer support for accounting and financial management 1.Yes 2. No

44. If yes, what is the type of software or computer support you are using?

1. Accounting
2. Inventory Management
3. Cash Management
4. Working Capital management
5. Purchase and Sales Management (Debtors and Creditors)
6. Total Computerized Solutions
7. Others (Please specify)

45. Are you preparing/using the following statements or analysis to know the financial strength or position of the enterprise?

1	Trading and Profit and Loss Account (Income Statement)	
2	Balance Sheet (Position Statement)	
3	Fund Flow Statement	
4	Cash Flow Statement	
6	Working Capital Statement	
7	Ratio Analysis	
8	Budgetary Control	
9	Standard Costing	
10	Others(Please Specify)	

46. What suggestion you would like to offer to improve the financial management practices of micro and small scale enterprises in Kerala.

Thanking You

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