Role of Small Scale Enterprises Providing Immediate Large Scale Employment, and Offer More Equitable Distribution of the National Income

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Abstract – To achieve the objectives of the study, secondary as well as primary sources of data have been used. The major sources of secondary data include the official records of Haryana Financial Corporation (HFC) and Haryana State Industrial Development Corporation (HSIDC), Chandigarh and Panchkula. HFC and HSIDC emphasize the borrowers to submit their annual accounts regularly so as to monitor the repayments of their loans. To start with the financial statements of as many as 100 small scale firms were collected from HFC and HSIDC. However, only 37 firms were kept in the final sample because of incompleteness of the data or mismatch of the accounting period between various SSEs. To make the sample size large and more representative data on 28 SSIs was collected from their books of accounts by visiting the offices of these firms. In total, financial statements of 65 units were collected and analysed. Annual Economic Surveys of Government of India, Government of Haryana, relevant RBI publications, research journals like "Economic and Political Weekly", SEDME, books and some Internet search engines like Google have also been used for this purpose.

Key Words: Secondary Data, Accounts, Relevant Rbi Publications, Research Journals

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INTRODUCTION

Without adequate finance, no enterprise can possibly accomplish its objectives. Sound financial management is crucial to the survival and well-being of small enterprises of all types. Studies of reasons for small business failure inevitably show poor or careless financial management to be the most important cause. Potts (1991) states the case more succinctly: "The clearest and most startling distinctions between successful and discontinued small businesses lie in their approach to the uses which can be made of accounting information."

Capital budgeting involves the generation of investment proposals, the estimate of cash flows for the proposals, the evaluation of cash flows and the selection of projects based upon an acceptance criterion. The methods used for measuring investment worth are: (i) Payback period method, (ii) Average rate of return, (iii) Discounted cash flow method, which includes (a) the Internal rate of return (IRR) method and the net present value method (NPV), and (IV) Profitability index.

REVIEW OF LITERATURE

In the words of Solomon and Laya (1967) "Financial management is properly viewed as an integral part of overall management rather than as a stall specialty concerned with fund raising operations. In this broader view, the central issue of financial policy is the wise use of funds and the central process involved in a rational matching of the advantages of potential uses against the cost of alternative potential sources so as to achieve the broad financial goals which an enterprise sets for itself. In addition to raising funds, financial management is directly concerned with production, marketing and other functions within an enterprise whenever decisions are made about the acquisition or distribution of assets."

Thus, financial management refers to that part of the management activity which is concerned with the planning and controlling of firm's financial resources. It deals with finding of various sources for raising funds for the firm. The sources must be suitable and economical for the needs of the business. The most appropriate use of funds also forms a part of financial management. As a separate managerial activity, it has a recent origin. This draws heavily on the Economics for the theoretical concepts.

Anand and Murugiah (2006) reported that employment intensity, low factor costs and equity in access to finance will be the best balancing factors in the reform agenda of developing economies. More focused and sustained interventions are needed to prepare the SSI sector for the challenges ahead and take full advantage and exploit the liberalized trade environment.

Uppal (2006) analyzed the issues peculiar to a “small scale of production” in India in globalized scenario. For most small enterprises access to timely and cheap finance is possibly the biggest problem. Despite several initiatives credit is still limited only to 14.9 percent if SSI units in the country. It is a sector where, after liberalization, only 20 out of 700 toy manufacturing firms in Delhi managed to stay out of the red, due to Chinese competition.

Morris & Basant (2006) highlighted the “Role of Small Scale Industries in the Age of Liberalisation”. In the eighties growth after 1982-83 has been high at rates around 10 percent per annum. Post structural adjustment growth has been about 7-10 percent till 1978-79 after which much smaller till 2001-02 of about 6-7 percent. The value of production of the registered small firms seems to have slowed down even since the 1990s. Exports collapse from 1996-97. Employment growth in SSI sector shows a fall from the 5.5 to 6 percent per annum in the eighties to about 4 to 5 percent after stabilization and then to further fall after 1997-98.

Sisodiya (2007) in his article “SMEs-in the era of globalization” has explained that globalization presents both challenges as well as opportunities to SMEs. The article suggests that it would be imperative for the government to support the growth and sustainability of this sector through appropriate policy measures. According to Sisodiya SMEs need to be agile so as to adapt to the changing business environment. They need to device strategies of which innovation must be a crucial component.

In performing the responsibilities and duties more efficiently and effectively, the financial executive may take the assistance of various techniques of financial management generally applied in developed as well as several developing countries. Amongst the various techniques of financial management; more widely used tools include analysis of financial statements, capital budgeting, receivables management, working capital management etc.

Financial analysis comprises the various financial statement items according to some logical criteria. These statements usually comprise the balance sheet and the profit and loss or income statement. They are the only means by which a firm can be viewed in its entirety. They represent the entire firm from different aspects.

Financial analysis is required by outside suppliers of capital-creditors and investors- and also by the firm itself. The type of analysis varies according to the specific interest of a party. A trade creditor is interested basically in the liquidity of the firm. The bondholder, on the other hand, is interested in the cash flow ability of the firm to service debt in the long run. An investor in a company’s common stock is concerned mainly with its present and expected future earnings and the stability of earnings in the long run. And the management is interested in showing the outside creditors a better financial position and sound operating ability of the firm. Moreover, for internal control it is a must at regular intervals.

Capital budgeting may be defined as the formal planning of the sources of long term funds and their allocation among potential long-term uses. This proof involves one of the vital functions of the financial manager. He has to take a decision on the investment of available funds in the desirable project. This decision is much important because (i) it usually entails the commitment of relatively huge sum of money and (ii) its effects will be felt for a long time to come. Another important aspect of the major investment decision is that until such a decision is made and implemented, many other decisions by the management cannot be undertaken. Clearly then, decisions reached through the process of capital budgeting are of extreme importance to the long-term success of a business enterprise.

Previous empirical literature was reviewed to specify the economic model for identifying the determinants of capital structure. Assuming a linear relationship between capital structure and its determinants, the model was specified as:

LEVERAGE = *f (profitability, size, tangibility, growth, non debt tax shield, liquidity, cost of borrowing, type of industry)*

MATERIAL AND METHOD

In terms of geographical area, the scope of the study was limited to the small scale enterprises located in Haryana State. In terms of nature of industries the study covers 9 industry groups i.e. polymer, steel, agro processing, engineering, auto parts, cement, pharma and chemical, textiles and miscellaneous. These are the industries which are playing vital role in the economy of Haryana as shown in Table 1.3. Firms have been classified in these nine categories on the basis of raw material used in that industry. For example food processing has been considered under agro processing. The classification has been done to make the analysis easily understandable and more meaningful (high number of categories may lead to complicated results).

In so far as the financing pattern and its determinants are concerned, the study period taken in this study belong to 2003-04 to 2007-08. There are two basic reasons behind the selection of this period as period of the study. First, this period relates to the post-liberalization era for the Indian economy, which is more relevant for study of corporate behavior. Second, in case of SSEs, the database is not maintained by any public or private institution for long period. Hence the reference period was reduced only to 5 years.

SOURCES OF DATA:

To achieve the objectives of the study, secondary as well as primary sources of data have been used. The major sources of secondary data include the official records of Haryana Financial Corporation (HFC) and Haryana State Industrial Development Corporation (HSIDC), Chandigarh and Panchkula. HFC and HSIDC emphasize the borrowers to submit their annual accounts regularly so as to monitor the repayments of their loans. To start with the financial statements of as many as 100 small scale firms were collected from HFC and HSIDC. However, only 37 firms were kept in the final sample because of incompleteness of the data or mismatch of the accounting period between various SSEs. To make the sample size large and more representative data on 28 SSIs was collected from their books of accounts by visiting the offices of these firms. In total, financial statements of 65 units were collected and analysed.

Annual Economic Surveys of Government of India, Government of Haryana, relevant RBI publications, research journals like “Economic and Political Weekly”, SEDME, books and some Internet search engines like Google have also been used for this purpose.

Moreover, annual reports of HFC were collected ranging from year 1990-91 to 2007-08. This data has been used to analyze the role of development banks in financing small industries.

PRIMARY DATA-

As stated earlier the primary objective of the study was to analyze the financial management practices of SSEs. Hence, this objective required primary data as this type of data has not been collected earlier by anybody else. The primary data was of dearth need to test various hypotheses under this study. The primary data was collected through a pre-tested and structured questionnaire (Annexure-II). While designing the questionnaire, care was taken to cover all facets of financial management such as financing, capital structure, working capital management and capital budgeting. The questionnaire consisted of open-ended, close- ended, dichotomous and Likert scale based questions. This questionnaire had been administered personally as well as through mail. A ‘pilot survey’ for pre testing the questionnaire was also conducted with 10 respondents. After the pilot survey certain modifications were done in the questionnaire and finally the modified questionnaire was used for the detailed study. In addition to this some of the entrepreneurs were also interviewed telephonically to verify the responses provided in questionnaire and information provided in their final accounts.

SAMPLE SIZE AND DESIGN:

A sample of 65 small scale units was taken from the list of borrowers of HFC and HSIDC for the purpose of secondary data collection. Simple random sampling technique was used for the selection of sample. The sample covers as many as 15 districts of Haryana namely Hisar, Sirsa, Sonipat, Panchkula, Chandigarh, Gurgaon, Faridabad, Rohtak, Bhiwani, Jhajjhar, Jind, Ambala, Panipat, Karnal and Fatehabad. These districts include all the major industrial sectors of Haryana (Table 1.2). These districts have been selected to make the data more reliable and representative of all the SSI units of Haryana.

Further, a sample of 100 SSIs was selected randomly to conduct field survey with the aim of study of financial management practices. For the purpose of analysis the sample was divided into 9 industrial groups.

ANALYSIS OF DATA:

Both secondary as well as primary data have been presented in the form of cross-classification tables so as to analyse and interpret the same appropriately. Besides simple statistical tools such as percentages, averages, standard deviation, CAGR (compound annual growth rate) and correlations, more advanced statistical tools like multiple regression analysis, t-test, ANOVA, F-test and chi-square test were also used.

To be more specific CAGR and t-test has been used to analyze the impact of liberalization on small scale industry and to see the role of HFC in financing small enterprises. The statistical tools such as mean, standard deviation, correlation, multiple correlation and ANOVA have been employed to see the financing pattern and its determinants in small scale sector. Cross tabulation and chi-square test has been used to find out the use of capital budgeting techniques in this sector by small units. Chi square test was applied for verifying the relationship between the variables such as the level of investment, age of firm and the selection of the capital budgeting techniques. Weighted average score was applied for analyzing the questions based on Likert scale. Averages and percentages have been used repeatedly to get a simple idea of the responses. Graphs and tables have made the analysis more interesting and understandable.

Model Specification for Regression**:-** A linear multiple regression model has been used to measure the combined effects of independent variables on the capital structure (i.e. proportion of debt to ownership capital).

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The econometric model of equation 1 is specified as follows:

LEVERAGE = α + β_1 PROF +β_2 SIZE + β_3 TANG + β_4 GROW + β_5 NDTS + β_6 LIQ + β_7 COB + β_8 INDUS error

Where, LEVERAGE is the dependent variable, PROF - Return on Assets, SIZE – Size of the firm, TANG – Tangibility of Assets, GROW – Growth Rate, NDTS – Non Debt Tax Shield, LIQ – Liquidity Ratio, COB – Cost of Borrowing , INDUS-Type of industry, α - is the intercept term, and β_1, β_2, β_3, β_4, β_5, β_6, β_7, β_8 are regression coefficients.

The study employed three measures of “LEVERAGE” which have been extensively used in the literature. These measures are: debt equity ratio (DE), debt assets ratio (DA) and short term debt to total assets ratio (STD).

Excel and SPSS had been meticulously used to process and analyze the data. Use of SPSS facilitated the application of various methodological tools.

CONCLUSION

In developing countries, small-scale businesses are the most important source of new employment opportunities. The review of literature in chapter 2 is very comprehensive and provides the deep insight of the work done by the experts and researchers on various aspects of the financial management practices. Studies of reasons for small business failure inevitably show poor or careless financial management to be the most important cause. Growing literature on the financial management supports the argument that in small business, financial management is one of the key issues. It not only increases the success rate but also affects the level of performance of a business. This research study is an exploratory and descriptive which raises some queries on the financial management practices of these SSIs in India and attempts to find the practical implication of these practices in India. With the increase in awareness of financial management practices, a fresh study to investigate the extent of use of these practices in small scale sector is necessitated. Moreover the factors which affect the use of these practices also needed to be analyzed.

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