CHAPTER - 9
SUMMARY, FINDINGS AND RECOMMENDATIONS

Entrepreneurship introduces a critical element of dynamism into an economic system. The entrepreneur is an economic agent who plays a vital role in the economic development of a country. In this modern world, no economy including those of developed countries, can afford to ignore this central role of the entrepreneurs for sustainable growth and change. Entrepreneurship development is considered as a remedy for economic backwardness. Moreover, entrepreneurship development provides better employment opportunities and socio-economic infrastructure facilities. Hence, entrepreneurship development, especially the development of the manufacturing sector, is important for every country, especially for developing countries like India.

In the manufacturing sector, the Micro, Small and Medium Enterprises (MSMEs) play a very important role in the economic development of India. Mahatma Gandhi firmly believed that the problems of unemployment and poverty in our country could be solved only if our villages prospered with village and small-scale industries. Even though the MSMEs have emerged as the most dynamic sector of India’s industrial field, they are facing so many problems. The phenomenon of the differential level of entrepreneurship in different countries and in different areas of the same country has been an interesting topic to researchers and policy makers.

The State of Kerala occupies the foremost place in literacy and in the
maintenance of law and order and primary health. But, in the case of investment, Kerala lags far behind many other States in India (India Today, Special Issue, Sept. 2007). The State of Kerala has a very high HDI and excellent standard of living, but it has not been successful in converting the same in terms of industrial and economic outcomes. It is a fact that Kerala’s industrial sector, especially the micro and small scale-sector, has not been performing well for quite a long time. If Kerallites can be more entrepreneurial in other States or countries other than Kerala, the reasons should be attributed to the prevailing business environment in Kerala, not to the venturesome or lethargic character of Keralites. Almost all researchers agree that the more conducive the business environment, the greater will be the chances for the emergence and growth of new enterprises. In this context, an investigation was conducted in the State of Kerala to determine the impact of different business environmental factors on the Micro and Small manufacturing enterprises. Through the analysis, favourable and unfavourable environmental factors were identified. An attempt was also made to identify the main problems of the enterprises (both in the micro sector and the small-scale sector) in the functional areas of production, marketing, finance and human resource management.

The sample for the study consisted of 150 manufacturing enterprises (100 from the micro sector and 50 from the small-scale sector) and 90 Facilitators. The Facilitators comprised 30 managers from the public and private sector banks, 30 Industries Extension Officers (IEOs) and 30 members from the local bodies (panchayath members and corporation and municipal councillors). The enterprises for the analysis were selected from Trivandrum, Ernakulum and Kannur districts on a random basis and the Facilitators were selected from the same areas adopting
purposive sampling technique. Information was collected using structured interview
schedules. Information from the entrepreneurs was sought for analyzing the
problems in the functional areas as well as for identifying the impact of micro
business environmental factors. But the macro business environmental factors were
analyzed on the basis of the responses of the Entrepreneurs as well as the
Facilitators.

Ranking tables based on weighted average scores of the ranks were used for
showing the gravity of the different problems in the functional areas. Spearman’s
Rank correlation coefficient was applied for testing the closeness of ranking between
the two groups, the micro and the small-scale entrepreneurs.

The impact of the different factors, whether favourable or unfavourable, was
assessed, based on the agreement or otherwise of the respondents to certain positive
statements connected with business environment. Five-point, Likert scale was used
for the purpose of analysis, and the interpretation was based on the mean values of
responses. Where the mean value was above 3 (mid value on the scale) the factor
was considered favourable, and unfavourable when it was below 3.

The study focused on the following objectives.

**Objectives of the Study**

3. To identify the major problems faced by the manufacturing enterprises in the
4. To assess whether there is any significant difference in the problems in the functional areas faced by the manufacturing enterprises in the Micro-Sector and the Small-Scale Sector.

9 To identify the impact of the dominant micro business environmental factors (favourable or unfavourable) connected with the Suppliers, Customers, Competitors, Marketing intermediaries, Financiers, the Public and the Regulatory Agencies in the functioning of Manufacturing Enterprises in Kerala.

10 To assess whether there is significant difference in the impact of the micro business environmental factors affecting the manufacturing enterprises in the Micro-Sector and the Small-Scale Sector in Kerala.

11 To ascertain the impact of the dominant macro business environmental factors (favourable or unfavourable) in terms of the Economic, Technological, Natural, Governmental, Political, Demographic, Socio-Cultural and Global components in the functioning of Manufacturing Enterprises in Kerala.

12 To analyze the difference in perception, if any, between the stakeholders-entrepreneurs and facilitators, relating to the impact of the macro business environmental factors in the functioning of manufacturing enterprises.

13 To examine the trend in the growth of Small-Scale Industries/Micro, Small and Medium Enterprises in the State of Kerala, in terms of the number of units, the employment created and the investment made.
To suggest policy measures for the promotion of the Micro and Small Manufacturing Enterprises in the State of Kerala

Considering the above objectives, the following hypotheses were formulated.

Hypotheses

3) There is no significant difference in the impact of the micro business environmental factors on the manufacturing enterprises in the micro-sector and the small-scale sector. The identified factors mainly are those related to the Suppliers, Customers, Competitors, Marketing Intermediaries, Financiers, Public and Regulatory Agencies.

4) There is no significant perceptual difference between the entrepreneurs and the facilitators on the impact of the macro business environmental factors in the functioning of the manufacturing enterprises in Kerala. The identified factors are associated with the Economic, Technological, Natural, Governmental, Political, Demographic, Socio-Cultural and Global components.

The above hypotheses were tested by applying ‘t’ test.

Findings of the Study

The findings of the study are presented under four heads:

1. The Functional Problems.
2. The Impact of Micro Business Environmental Factors.
3. The Impact of Macro Business Environmental Factors and
4. The growth of Small-Scale Industries/MSMEs in Kerala.
9.1. The Functional Problems

The study sought the opinions of entrepreneurs from the Micro-Sector and the Small-Scale Sector regarding the problems faced by them in the different functional areas. The functional problems were discussed under 4 heads. They are:

A - Problems in the Functional Area of Production
B - Problems in the Functional Area of Marketing
C - Problems in the Functional Area of Finance, and
D - Problems in the Functional Area of Human Resource Management

a) Findings Connected with the Problems in the Functional Area of Production.

While ranking the production problems, it was found that the lack of skilled labour force, the high cost of raw-materials, the exorbitant cost of production, the inability to schedule production according to demand and the irregular power supply were the serious problems in the order of their gravity, faced by the entrepreneurs.

Further enquiry revealed that in the majority of enterprises in the State, the lion’s share of the workers came from outside Kerala. In relation to the higher cost of production, the respondents felt that raw-material prices and labour charges had doubled over the last three years. It was also observed that power interruption was usual in the State of Kerala.

The Spearman’s rank correlation coefficient value showed a high degree of positive correlation in ranking the problems faced by the entrepreneurs in the Micro-Sector and the Small-Scale Sector. It revealed that the production problems were almost identical for both the sectors.
b) Findings Connected with the Problems in the Marketing Area

Marketing is a major problem area for manufacturing enterprises in the Micro and Small-Scale sectors. As per the collective opinion of the Micro as well as the Small-Scale Entrepreneurs, the inability to increase the sales price corresponding to the increase in the cost of production was the foremost marketing problem. But while analyzing the sector-wise impact, it was rated the 7th problem faced by the small-scale entrepreneurs because the cost of production of the small scale sector was comparatively low due to the application of modern technology. The same problem was ranked 1st by the micro-entrepreneurs. The ranking Table revealed that problems like inadequate publicity, exploitation by middlemen and difficulties in collecting dues were the 2nd, 3rd and 4th problems faced by the entrepreneurs collectively (Micro and Small entrepreneurs).

Further enquiry revealed that the majority of the entrepreneurs could not advertise their products due to the exorbitant advertisement charges. Another remarkable observation was that the majority of the manufactures were selling their products through intermediaries, giving them high margin or commission.

The high positive Spearman’s rank correlation value showed that the marketing problems were almost identical for the Micro as well the Small-Scale Manufacturing Enterprises in Kerala.

c. Findings Connected with the Problems in the Financial Area

Finance is the lubricant without which no enterprise will move. As per the ranking Table, the complicated legal formalities for getting loans, the higher
additional charges and the insistence on margin money and collateral security were the first, second and third problems faced by the entrepreneurs.

Legal formalities include the submission of various papers like security-oriented documents (if collateral security is insisted on by banks), Memorandum part I issued by the DIC, machinery quotations, TIN number papers etc. to the lending institutions. Above all, the majority of the entrepreneurs argued that the will of the bank manager is the most important element that decided the fate of the loan. Regarding the additional charges, it was revealed that the borrower was bound to give so many additional charges like transaction cost, processing charge, legal charges, valuation fee, guarantee and annual fee connected CGTMSE etc. to the banks. Another observation was that an entrepreneur had to remit 25 to 30 per cent margin money for term loans and 40-45 per cent for working capital loans.

The Spearman’s rank correlation value ‘1’ shows a perfect positive association in financial problems encountered by both the Micro Sector Entrepreneurs and the Small- Scale Entrepreneurs. It shows that they are facing similar problems connected with financial support from banks.

d. Findings connected with the Problems in the Human Resource Management Area

The availability and attitude of labour force are important elements in the industrial growth of Kerala. The ranking of human resource problems revealed that the non-availability of labour force was the most serious problem, followed by the demand for higher monetary and non-monetary benefits from workers, labour turnover and the inability to provide proper training to workers.
It was observed that in the majority of firms, more than 70 per cent of the workers were from outside Kerala, who were not trained and skilled at all. The wage rate in the State is very high when compared with that of other States. Moreover, the turn-over rate of workers is also very high. All these tend to create high instability in the human resource management area.

A very high positive rank correlation value shows that the human resource management problems are almost identical for the Micro as well as the Small-Scale manufacturing enterprises in Kerala.

9.2. The Impact of Micro Business Environmental Factors

The micro environment consists of factors having direct bearing on the performance of an enterprise. The responses of entrepreneurs were taken for identifying impact of the Micro Business Environmental factors (favourable or unfavourable) upon the functioning of the manufacturing enterprises in the State.

The ‘Micro Business Environmental Factors’ were analyzed, classifying the same under the following heads:

1) Impact of Factors Connected with Suppliers,

2) Impact of Factors Connected with Customers,

3) Impact of Factors Connected with Competitors,

4) Impact of Factors Connected with Marketing Intermediaries,

5) Impact of Factors Connected with Financiers,

6) Impact of Factors Connected with the Public, and

7) Impact of Factors Connected with Regulatory Agencies.
Impact of Factors Connected with Suppliers

With regard to the factors connected with the suppliers, it was observed that timely availability of raw materials was the only identified factor favourable to the entrepreneurs. The other supplier-related factors were identified as unfavourable. The factors identified as having a negative impact were the availability of raw materials on credit basis, reliance on a single source of supplier, loading and unloading costs, fluctuations in raw material prices, local availability of raw materials and the transportation costs.

Among these unfavourable factors, fluctuation in raw-material prices was considered the ‘most unfavourable’ supplier-related factor. While considering all the ‘supplier-related’ factors collectively, their impact was found unfavourable to the micro and small-scale enterprises.

Kerala is a consumer State as its industrial production is minimal. Hence, in the majority of industries, raw materials are not locally available. As the State is located in the southwest corner of India, transportation from the other parts of the country becomes expensive. The respondents complain that they are forced to pay excessive loading and unloading charges. The majority of the suppliers are doubtful about the credit-worthiness of the entrepreneurs while supplying raw materials on credit basis.

As per the ‘p’ value of the ‘t’ test analysis, there is no significant difference in the impact of ‘supplier-related’ factors on the manufacturing enterprises in the micro-sector and the small-scale sector. Hence the hypothesis connected with supplier-related factors is accepted.
Impact of factors connected with Customers

- As per the collective responses of Micro and Small entrepreneurs, with regard to the ‘customer-related’ factors there was a favourable impact from all the identified factors on the entrepreneurial community in the State. The factors identified as having a ‘most favourable’ impact were the different types of customers for buying the products, the buying power of customers and the attitude and desire of the customers (m > 4). The non-availability of an exact substitute for the products showed a favourable impact. However, a difference of opinion existed in respect of the non-availability of better substitutes for the products. When the small-scale entrepreneurs believed it to be a positive factor, i.e., majority of them did not face any competition from the close substitutes produced by the other firms, the micro sector believed it to be negative, i.e., better substitutes were available to their customers, which definitely threatened the demand for their products.

- As per the ‘p’ value of the ‘t’ test analysis, the hypothesis connected with ‘customer-related’ factors is accepted. It shows that there is no significant difference between the micro enterprises and the small-scale enterprises regarding the positive impact of customer-related factors.

Impact of Factors connected with Competitors

- With regard to the identified ‘competitor-related’ factors, the factors identified jointly by the micro sector entrepreneurs and the small-scale entrepreneurs as having a negative impact were the brand competition, the pricing of competitors and the packaging of competitors. Among these
factors, the brand competition, and the pricing of competitors were considered as the ‘most unfavourable’ factors.

- The only factor which was not negative to the majority of both the sectors was competition from foreign firms. Further enquiry in this regard revealed that as the entrepreneurs produced quality products, foreign products would not affect them severely. Moreover, large-scale deployment of products to compete with the products of the respondents was hardly noticed.

- By considering all the ‘competitor related’ factors collectively, it may reasonably be assumed that their impact was unfavourable to the micro and small-scale enterprises.

- As per the ‘p’ value of the ‘t’ test analysis, the hypothesis in respect of ‘competitor-related’ factors is accepted. It shows that there is no significant difference between the micro sector enterprises and the small-scale enterprises with regard to the negative impact of competitor related factors.

**Impact of the factors connected with Marketing Intermediaries**

- With regard to the impact of ‘marketing intermediary’ factors, the factors favourable to the entrepreneurs were the availability of middlemen for distributing the products and the availability of sufficient number of advertising agencies like television channels, newspapers, magazines etc. Of these two factors, the latter was appraised the ‘most favourable’ factor.

- But the impact of advertisement cost is unfavourable to the entrepreneurs collectively and more unfavourable to the micro units. As advertisement
cost is very high, the majority of the micro units could not advertise their products.

- The collective impact of ‘marketing intermediary’ factors is found favourable to the enterprises.

- As per the ‘p’ value of the ‘t’ test analysis, the hypothesis connected with ‘marketing intermediary’ factors is rejected. It shows that there is significant difference between the micro-enterprises and the small-scale enterprises regarding the positive impact of these factors. The study results show that their collective impact is more favourable to the small-scale sector enterprises than to the Micro-Sector.

**Impact of Factors Connected with Financiers**

- Among the identified factors, the rate of interest on margin money loan from the DICs(6%) and the general banking services to the entrepreneurs were the ‘most favourable’ factors (m>4) to the entrepreneurial community.

- The factors with negative impact (unfavourable) were the attitude of banks while giving loans to the enterprises, the rates of interest on bank loans, the limit of margin money loans from the DICs(20% of project costs or 2.5 lakh whichever is less) and loans from private individuals. Among these, the ‘most unfavourable’ factors were the rate of interest on bank loan and the effect of loan from private individuals. The study results revealed that the majority of entrepreneurs were not satisfied with the lending policy of banks and also with the maximum limit of margin money loans from the DICs.
• The overall impact of factors connected with financiers is unfavourable to the entrepreneurs.

• As per the ‘p’ value of the ‘t’ test analysis, the hypothesis connected with ‘Financiers, is rejected. It shows that there is significant difference between the Micro-Enterprises and the Small-Scale Enterprises regarding the negative impact of these factors. The study shows that the collective impact of these factors is more unfavourable to the small-scale sector than to the micro-sector.

**Impact of Factors Connected with the Public**

• With regard to the factors connected with the public, the factors which showed favourable impact in the entrepreneurial environment were the attitude of the Medias and the attitude of the NGOs. Among these two factors, the attitude of the NGOs was treated as the most favourable factor. It was observed that the NGOs conducted awareness camps, seminars and various training programmes for the benefit of entrepreneurs. The media like Television channels, newspapers, magazines etc. informed the entrepreneurs about the Government’s industry-related policies and the various schemes and incentives.

• The factor which showed unfavourable impact was the environment awareness of the public. It was observed that the responsiveness of Keralites towards, issues connected with pollution, waste management etc were unfavourable to the majority of enterprises.
• The overall impact of the factors connected with the public was favourable to the entrepreneurial community.

• As per the ‘p’ value of the ‘t’ test analysis, the hypothesis connected with the public-related factors is accepted. It shows that there is no significant difference between the micro-enterprises and the small-scale enterprises regarding the favourable impact of these factors.

**Impact of Factors Connected with Regulatory Agencies**

• With regard to the factors connected with the ‘regulatory agencies’, the factors which showed favourable impact in the entrepreneurial environment were the performance of the Industrial Department of the State and the attitude of the Central and State tax authorities. Among these two factors, the latter was found the ‘most favourable’ factor.

• The factors on which a negative impact was identified were the performance of the DICs, the attitude of Quality Standard Boards and the effectiveness of training agencies.

• The collective impact of the factors of ‘regulatory agencies’ was favourable to the entrepreneurial community.

• A difference of opinion was noticed between the micro entrepreneurs and the small scale entrepreneurs with regard to the performance of the DICs and the performance of the Industries- Department of Kerala. In the case of the performance of the DICs, the micro-entrepreneurs believed it to be negative,
but to the small-scale entrepreneurs, it was positive. Regarding the performance of the industries-Department, the micro entrepreneurs viewed that its impact was favourable to them, but the small-scale sector opined that it was unfavourable.

- As per the ‘t’ test analysis, the hypothesis connected with regulatory agencies is rejected. It shows that there is significant difference between the micro-enterprises and the small-scale enterprises regarding the impact of these factors. These factors are collectively favourable to the micro-sector but unfavourable to the small-scale sector.

**Collective Impact of Micro Environmental Factors**

- As per the findings connected with the impact of the seven identified ‘Micro Business Environmental Factors’, the overall impact of factors connected with the customers, public, marketing intermediaries and regulatory agencies was found favourable to the entrepreneurial community in the State of Kerala. Based on the magnitude of the positive impact of factors, factors connected with the customers came first and those of the regulatory agencies came last. Regarding the favourableness of these four factors, both the micro entrepreneurs and the small-scale entrepreneurs had the same opinion except regarding the impact of the regulatory agencies. The collective impact of factors connected with the regulatory agencies was found favourable to the micro-enterprises and unfavourable to the small-scale sector.
The factors which were found unfavourable to the entrepreneur community were the impacts of the competitors, suppliers, and the financiers. Based on the magnitude of the negative impact of factors, competition-related factors came first and the financiers-related factors came last.

Regarding the unfavourableness of these three factors, both the micro and the small-scale entrepreneurs had the same opinion.

The collective impact of the seven identified micro environmental factors in the State was found favourable to the entrepreneurial community. As per the ‘t’ test analysis, the collective ‘p’ value of these factors (0.676) is greater than 0.05. Hence the study concludes that there is no significant difference between the manufacturing enterprises in the micro sector and small-scale sector regarding the overall positive impact of micro business environmental factors in the State of Kerala.

9.3. The Impact of Macro Business Environmental Factors

Macro environment refers to those factors which are purely external forces and which influence the activities of the enterprises. As macro factors are purely external, the support of different agencies like the banks, the government, the local bodies etc. is required for creating a conducive business environment in the State. Hence, for assessing the present impact of the ‘Macro Business Environmental Factors’, whether favourable or unfavourable, upon the enterprises in Kerala, the responses of two main groups, the Manufacturing Entrepreneurs and the Facilitators, were taken.
The Macro Business Environmental Factors were analysed, classifying them under the following heads:

1. Impact of Economic Factors,
2. Impact of Technological Factors,
3. Impact of Natural Environmental factors,
4. Impact of Governmental factors,
5. Impact of Political factors,
6. Impact of Demographical factors,
7. Impact of Socio-Cultural factors, and
8. Impact of global factors.

**Impact of Economic Factors**

- As per the joint opinion of the Entrepreneurs and Facilitators, the economic factors ‘most favourable’(m>4) to the industrial environment of Kerala were the facilities of the Railways, Telephone internet facilities, national economic growth, higher prices of agricultural produces and the inflow of funds from NRIs. The other favourable factors were the cost of basic utilities like electricity and water, and rural electrification,

- But the economic factors which showed the ‘most unfavourable’ impact(m<2) upon the enterprises were the condition of roads, traffic management in the State and the availability of the land and its cost. The other factors which were unfavourable to the industrial environment were industrial waste disposal facilities, the supply of electricity, higher price level
changes and the monetary policy of the RBI. In Kerala, the condition of the roads in the rural areas, particularly in the rainy seasons, is extremely poor. According to the majority of respondents, in addition to this major hurdle, there are other crippling factors like the frequent power interruption, the scarcity and high cost of land, and the absence of effective waste disposal facilities. However, the cost of land is affordable to the entrepreneurs in industrial estates/development plots, but the availability of such land is very much limited.

- While considering the identified economic factors together, their impact was found just favourable to the Micro and Small Enterprises in the State.

- As per the ‘p’ value of the ‘t’ test analysis, there is no significant perceptual difference between the Entrepreneurs and the Facilitators on the collective impact of the economic environmental factors in the functioning of Manufacturing enterprises in the State of Kerala. Hence the hypothesis connected with the impact of economic factors is accepted.

**Impact of Technological Factors**

- As per the collective opinion of the Entrepreneurs and Facilitators, the technological factors which had the ‘most favourable impact’ (m>4) upon the Enterprises were the fast changes in technology and the use of computers by the enterprises. The use of foreign technology was the factor which showed favourable influence.

- The factors identified as having a negative impact were the cost of the latest technology, the limit of the State Government’s investment subsidy and the
use of technology in product design. Even though the majority of the respondents welcomed the fast changes in technology, they thought that its cost was not affordable to the small firms. It was also observed that the majority of the respondents were not satisfied with the present rate of investment subsidy (10% of fixed capital investment to the general category and 15% to thrust industry, subject to a maximum of 5 lakh/15 lakh respectively.)

• While considering the technological factors together, their collective impact was found favourable to the small firms in the State.

• As per the overall ‘p’ value of the ‘t’ test analysis, the hypothesis connected with ‘technological factors’ is accepted. It shows that there is no significant perceptual difference between the Entrepreneurs and Facilitators regarding the overall positive impact of technological factors.

**Impact of Natural Environmental Factors**

• As per the collective opinion of the respondents, the environmental factors favourable to the enterprises were the better natural climatic conditions within the State and the long coastline of the State. Both these factors exhibited the ‘most favourable, impact upon enterprises.

• The factors having an unfavourable impact were the physical location of the State in the southern part of the country and the depletion of natural resources. Of these two factors, the latter showed the ‘most unfavourable’ impact. Due to the locational disadvantage of the State, the entrepreneurs
had to pay huge freight and transportation charges for the inflow of machines and materials and for the outflow of finished goods. This situation increased the cost of production.

- While taking the natural environmental factors together, their overall impact was found unfavourable to the entrepreneurial community in the State.

- As per the overall ‘p’ value of the ‘t’ test analysis, the hypothesis connected with natural environmental factors is rejected. It shows that there is significant perceptual difference between the Entrepreneurs and Facilitators regarding the overall impact of Natural environmental factors. While the entrepreneurs believed it to be positive, the Facilitators considered it to be negative. This contrary perception between the two groups arose only because of the difference of opinion relating to the impact of the long coastline of the State. The Entrepreneurs believed that its impact was ‘most favourable’, whereas the Facilitators thought it favourable to the entrepreneurial community.

**Impact of Governmental Factors**

- With regard to the Governmental factors, it was observed that there were favourable and unfavourable factors in the business environment, as judged by the Entrepreneurs and Facilitators. The favourable factors were industrial support of the Central Government, the impact of different taxes, the law and order situation in the State and the FDI policy of the Central Government. None of the above factors was deemed ‘most favourable’ (m>4).
The factors unfavourable to the entrepreneurs were the industrial policy of the State Government, the attitude of the Local Governments, the outlook of the of various Line Departments, the attitude of the State Government towards innovative enterprises, the functioning of single window system, the attitude of the Central Government to protect home industries against foreign competition and the facilities in the industrial parks. Among these unfavourable factors, the facilities in the industrial parks were considered the ‘most unfavourable’ Governmental factor. As regards the State Government’s support; it was mainly confined to the sanctioning of investment subsidy and the allocation of the amount for margin money loan. It was revealed that the Local Governments and the various Line Departments were causing unnecessary delay while issuing various permits, licences and certificates. Regarding the single window clearance system, the majority of the respondents revealed that some officers of the Line Departments were not acting promptly in accordance with the directions given by Single Window Clearance Board. The infrastructure facilities in the industrial parks/development plots, especially those owned by the DICs and the SIDCO, were not up to the mark.

By considering all the identified Governmental factors together, it can reasonably be assumed that their consolidated impact was ‘unfavourable’ to the Micro and Small Enterprises in the State.

As per the ‘p’ value of the ‘t’ test analysis, the hypothesis connected with the impact of Governmental factors is rejected. It shows that there is significant
perceptional difference between the Entrepreneurs and the Facilitators on the overall impact of the Governmental factors in the functioning of enterprises in Kerala. Significant perceptional difference between the two groups was noticed in the case of the Central Government’s policy and support, the effectiveness of the law and order situation of the State, the facilities in the industrial parks and the impact of the FDI policy of the Central Government. Perceptional difference was noticed only in the degree of favourableness or unfavourableness. The Entrepreneurs and Facilitators expressed the same opinion in respect of these factors, as favourable or unfavourable to the entrepreneurial community.

**Impact of Political Factors**

- With regard to the political factors, it was observed that there was an unfavourable impact from the environment, as judged by the Entrepreneurs and Facilitators. The factors identified as having a negative impact were the attitude of political parties, hartals and bandhs in the State and the political instability in the State. Among these factors, it was observed that the hartals and bandhs influenced the industrial sector ‘most unfavourably’.

- A difference of opinion existed only on the factor, ‘the attitude of political parties towards enterprises’. While the Entrepreneurs believed it to be negative, the Facilitators considered it to be positive. It was further observed that this positive view on the part of the facilitators emerged because of the responses of the members of the local bodies; the majority of whom were politicians.
The State is exposed to a number of bandhs and hartals and always there was a switching of power between the Left and Right, every five years. This creates diverse industrial policies and implications. The overall impact of political factors was found obviously unfavourable to the entrepreneurial community.

As per the overall ‘p’ value of the ‘t’ test analysis, the hypothesis connected with political factors is rejected. It shows that there is significant perceptional difference between the Entrepreneurs and Facilitators with regard to the negative impact of political factors upon the enterprises. According to the Entrepreneurs, it is more unfavourable than what the Facilitators deemed it to be.

Impact of Demographic Factors

As judged by the respondents, the demographic factors favourable to the enterprises were the high literacy rate of the State, the population growth within the country and the high age and life expectancy of the people in the State. All these three factors were appraised the ‘most favourable’ to the manufacturing enterprises in the State (m>4).

The factor which showed a negative impact upon enterprises was ‘the small size family in the State’. It was observed that the respondents gave their answers taking into account the demand of the products in terms of the number of people and not of the disposable income of each family. Another finding was that if there were more members in a family, their mutual support would strengthen the business.
• The joint impact of the identified demographic factors was favourable to the manufacturing Enterprises in the State.

• As per the ‘t’ test analysis, the hypothesis connected with ‘demographic factors’ is accepted. It shows that there is no significant perceptional difference between the Entrepreneurs and the Facilitators regarding the positive impact of the demographic factors upon the functioning of enterprises in the State.

**Impact of Socio-cultural Factors**

• As per the collective opinion of the entrepreneurs and facilitators, the impact of socio-cultural factors favourable to the Enterprises were the disregard of the direct implication of religious components upon entrepreneurship, the impact of religious festivals upon the sale of industrial products, the efficiency of the entrepreneurs from entrepreneurial families, the effectiveness of business education in the State and the status of Entrepreneurs in the society. None of the above factors was deemed ‘most favourable’ (m>4) to the entrepreneurial community.

• The factors which showed the ‘most unfavourable’ impact were the increasing tendency among Keralites to prefer white-collar jobs to entrepreneurial activities, risk aversion of Keralites, business education at school level and the influence of the habit of Keralites to invest in gold/jewelry or real estates (m<2). The other unfavourable factors were the attitude of social reformers towards industrial growth and the technical education system within the State.
• The reasons why the above factors remained unfavourable were closely examined. The majority of the respondents argued that starting an enterprise in Kerala is a risky venture and hence the educated community of Kerala preferred riskless white-collar jobs. Regarding the technical education system, further enquiry revealed that it was not really practical-oriented. It was also observed that Kerala is backward for providing business education at school level. Another observation was that Keralites usually preferred safer investment in gold or real estate, because investment in manufacturing enterprises was looked upon as risky and the returns slow and limited.

• The collective impact of the socio-cultural factors was unfavourable to the entrepreneurial community.

• As per the ‘t’ test analysis, the hypothesis connected with the socio-cultural factors is rejected. It shows the significant perceptual difference between the Entrepreneurs and the Facilitators with regard to the overall negative impact of the socio-cultural factors upon enterprises. The Entrepreneurs think that the overall impact is more unfavourable than what is thought to be by the Facilitators.

**Impact of Global Factors**

As per the study results, the favourable Global factor was

• the effect of globalization and liberalization.
• The factors which had an unfavourable impact upon enterprises were the hike in crude oil prices and the effect of international depression. Among these two factors, the former had the ‘most unfavourable’ impact upon enterprises.

• By considering all the identified Global factors, their joint impact was judged unfavourable to the manufacturing Enterprises in Kerala.

• As per the ‘t’ test analysis, the hypothesis connected with the Global factors is accepted. It reveals that there is no significant perceptual difference between the Entrepreneurs and the Facilitators regarding the negative impact of the Global Factors upon the functioning of manufacturing enterprises in Kerala.

Collective Impact of Macro Business Environmental Factors

• As per the Collective response of the Entrepreneurs and Facilitators, out of the eight identified ‘Macro Business Environmental Factors’, the impacts of Demographic factors, technological factors, and economic factors, were ‘favourable’ to the Micro and Small Enterprises in Kerala. Based on the magnitude of the positive impact, the demographic factors came first and economic factors came last. Regarding the favourableness of these three factors, there was no significant difference of opinion between the Entrepreneurs and the Facilitators.

• The factors with a negative impact (Unfavourable) were identified to be the political factors, Global factors, socio-cultural factors, Governmental factors and Natural Environmental Factors. Based on the magnitude of the negative impact of factors, political factors came first and the Natural Environmental Factors came last.
Regarding the unfavourableness of these five factors, there was no difference of opinion between the Entrepreneurs and the Facilitators except regarding the impact of environmental factors. The Entrepreneurs claimed that the collective impact of environmental factors was favourable, but the Facilitators thought that it was unfavourable. This difference of opinion arose because of their difference in perception regarding the impact of the long coastline in the State. The majority of the Facilitators argued that even though Kerala has a long coastline, Cochin is the only major port which can be used by the Entrepreneurs from the different parts of Kerala.

By considering the collective impact of the Macro Environmental Factors, it was found that these factors were unfavourable to the Manufacturing Enterprises in the State of Kerala. As per the collective ‘p’ value of the ‘t’ test, the study showed that there was no significant perceptional difference between the Entrepreneurs and the Facilitators with regard to the overall unfavourable impact of the Macro Environmental Factors upon the enterprises in Kerala. It showed that the identified stakeholders in the study believed that the overall impact of macro business environment factors was unfavourable to the manufacturing enterprises in the State of Kerala.

9.4. The Growth of Small-Scale industries/ MSMEs in Kerala.

The Growth of Small-Scale Industries in Kerala from 1996-97 to 2005-06.

Even though there was an increase in the total number of the SSI units registered in Kerala from 1996-97 to 2005-06, the rate of increase was found
at a diminishing rate, ie, the growth rate of 12.18 per cent during 1997-98 diminished to 2.01 per cent during 2005-06

- Even though it is believed that the small-scale industrial sector provide high employment opportunities, the data showed that employment opportunities did not increase in proportion to the increase in the number of the SSI units.

- When the compound annual growth rate of the SSI Units registered from 1996-97 to 2005-06 showed 6.634 per cent, the growth rate in investment in the sector witnessed 9.75 per cent. It is a positive sign.

- The growth rates in respect of the total value of goods and services produced by the SSI sector were declining from 1997-98 to 2005-06, except during 2002-03 and 2004-05.

- Comparing the compound annual growth rate in respect of the number of SSI units registered (6.634%) and the growth rate of the value of goods and services produced (11.39%) by the same sector, it is found that the latter disclosed a higher growth rate. It is a promising trend.

**Findings Connected with the Growth of New MSMEs in Kerala from 2006-07 to 2010-11**

- The total number of new MSME units which filed Memorandum Part –II up to 2007-2008 was 6425 and it increased to 32089 units during 2010-11. Even though the number of units increased, the rate of increase was at a diminishing rate.
The employment opportunities in the MSMEs did not increase in proportion to the growth in the number of MSMEs in the State.

Another observation is that the compound growth rate in respect of investment and employment opportunities was less when compared to the growth rate in respect of the number of new MSMEs functioning in the State. Hence the Government, financial institutions and other stakeholders in the MSMEs have to take more corrective steps to minimize the shortcomings in the above-mentioned areas.

9.5. Recommendations

The researcher, for the purpose of this study, has focused on the Micro and Small manufacturing units. The study has identified the main problems in the functional areas of production, marketing, finance and human resource management. It also singled out the favourable and unfavourable business environmental factors (both micro and macro factors) which affect the functioning of small enterprises in Kerala. The researcher puts forth the following recommendations for the correction of the negative impact of business environmental factors and also for the growth of the MSEs in the State in the near future.

Recommendations with Regard to Functional Areas

The study results show that the most glaring problem faced by the micro and small enterprises is the shortage of labour force. Skilled labour at affordable cost is still lacking. There is a need to attract and encourage skilled workers to work within the State. Progressive wage structure and job guarantee
agreement would help in this measure. It is also necessary to provide fair
wages and adequate security for migrant workers. Comprehensive
legislations covering the entire labour, keralite and migrant, is necessary. To
render cost-effectiveness, more mechanized operations may also be
considered.

**F** With regard to the higher cost of raw materials, it is suggested that
government agencies like SIDCO, DIC, etc. could procure raw materials
collectively for similar units. This would bring about economies of scale.

**F** Micro and small enterprises need to formulate appropriate pricing strategies
which consider their cost of production and make provisions for earning
reasonable profits. Efforts must also be made to prevent wastage and losses
and thereby to reduce costs. Similarly, cost-effective processes must be
encouraged.

**F** Marketing is a serious problem for Micro and Small enterprises. The SIDCO
and DIC can help in this regard. At present, the SIDCO purchases only a
limited variety of articles from MSEs. It is recommended that SIDCO should
buy more varieties of products from MSEs, making prompt cash payments.
The DICs also can act in this line.

**F** A common sales outlet should be started in each Block under the supervision
of the DICs, which will help the MSEs to display their products to attract
more customers.

**F** The majority of the entrepreneurs are unaware of the export formalities and
they depend solely on local customers. Hence, workshops and seminars
should be conducted by DICs and other agencies to familiarize the entrepreneurs with the export formalities.

F The government should organize trade and industrial fairs more effectively along with festivals and tourism-related events promoting the products of MSEs.

F MSEs cannot afford huge advertisement budget; hence, promotional messages may be given on priority basis in selected government publications and brochures.

F Among financial problems, the rigid legal formalities insisted on by banks are creating substantial difficulties to the entrepreneurs. As per the direction of the RBI, no collateral securities should be demanded by banks from the MSEs for granting loans up to Rs. 10 lakh. Similarly, as per the CGTMSE scheme of the Government of India, a bank should give security-free credit facilities up to Rs. 1 crore to the MSEs. But practically, even now, some banks, especially those in the rural areas, insist on landed property as security. It is recommended that all the banks in the State should be ready to follow the guidelines given by the RBI and the Central Government in this regard.

F The Banks should abandon or at least reduce the additional charges like processing charges, legal charges, CGTMSE guarantee fee etc. imposed on the entrepreneurs. The majority of Micro Entrepreneurs are not aware of the various financial schemes of the Central and State Governments. Hence, it is essential to intensify the efforts to increase the level of awareness of the
various sources of finance available to the entrepreneurs. The Government should give instructions to the lead bank in each district to look into these matters and to adopt entrepreneur-friendly attitude without affecting the liquidity and profitability of the banks.

F Training programmes should be designed scientifically. The DICs, NGOs, Banks, MSME institute etc can do a lot in this regard. Training should be need-based and on the basis of specific objectives.

**Recommendations with Regard to the Micro Business Environmental Factors**

F Soaring loading and unloading charges negatively influenced the enterprises. It is realized that there is no uniformity in these charges in different parts of the State. A special cell consisting of the representatives from labour ministry, police, authorized trade unions etc. may be formed in each locality, so that this problem can be effectively solved.

F Government-sponsored promotional measures, by selecting sectors and regions on a collective form, would help in dealing with brand competition and right pricing. Permitting such enterprises to showcase their products through the modes of publicity in government channels is suggested.

F Lending to MSEs would come under the priority sector lending of banks under RBI and government guidelines. However, it was observed that the majority of the entrepreneurs were dissatisfied with the present rate of interest for industrial loans. They argued that the higher rate of interest increases the cost of operations. Hence, banks should reduce the interest
rates on loans to MSEs and the RBI and government should monitor the same.

**F** Margin money loan from the DICs should be increased from 20 per cent on a need-based assessment. Moreover, the same facility should be provided to the existing enterprises when they apply for fresh loans at the time of their expansion, modification and diversification.

**F** The Government must come forward with strict legal measures to strengthen the organized lending to negate the impact of indigenous bankers and private money-lenders.

**F** With regard to quality standards, the majority of the entrepreneurs are finding it difficult to obtain quality certificates for their products. This is not because the quality is low but due to their inability to meet the formalities of certifying agencies. The authorities concerned should consider the scale of operations and liberalize the formalities for obtaining these certificates.

### Recommendations with Regard to Macro Business Environmental Factors

**F** The main issue with regard to the economic factors was related to infrastructure. The issue of land could be addressed through the development of industrial parks and development plots with necessary support facilities. The government should maintain roads and highways to facilitate the movement of goods. Proper focus is necessary on waste disposal through treatment plants and the conversion of solid wastes. The government should take the initiative and provide the expertise to the
entrepreneur for converting the solid wastes into attractive products and export the same to other countries.

F Inability to adopt the latest technology due to cost constraints negatively impacted the enterprises. Use of business incubators and common facility centres with high-end technology could be encouraged. Bridge financé to meet technological inputs should be encouraged through banks.

F Vertical expansion of industrial parks through multi-storied structures with multiple facilities should be encouraged.

F To render the single window clearance system more effective, the State Government should give strict directions to all Line Departments in the industrial field to follow the instructions given by the Single Window Clearance Board.

F The Local governments should issue industrial licences to the enterprises without delay. The present delay is creating time and cost overrun.

F Generally, people like to start their enterprises in their own locality and hence the Government should take initiatives to start one industrial estate or Development Plot in each panchayath/municipality/corporation.

F Now the Government gives the best entrepreneur’s award at State level. It should be extended to the panchayath/municipality/corporation level also. Such awards can be initiated by the local self-governments.

F It will be more convenient to entrepreneurs, if offices of major Line Departments like Pollution Control Board, Town Planning, Factories and
Boilers, Groundwater Department, Fire and Rescue, Mining and Geology etc. function in the same premises where the DICs are located.

All stakeholders of enterprises unanimously admitted that frequent hartals and bandhs were a serious problem faced by the enterprises. The political parties calling for such methods of protest must reconsider their decisions showing political courage to industrialize the State.

The school curriculum should be modified incorporating business studies which would help the younger generation to think about entrepreneurship from their schooldays.

Political stability does influence the industrial environment. Alternate rule by the left and right governments has created negative impact as policies are reversed. Irrespective of political ideology, there is need to have stability on industrial policy issues. Politicians should work in this line.

Dignity of labour and reliance on entrepreneurial skill must be the focus of policies relating to the youth. This will create employability in multiple sectors.

9.6. Scope for Further Study

The present study “Business Environment Analysis and Growth of Small Enterprises in Kerala” concentrated on identifying the impact of dominant business environmental factors (favourable or unfavourable) in the functioning of manufacturing enterprises in the State of Kerala. As Keralites are nearly 100 per cent literate, there is more scope for service industries like IT, hotel, tourism etc. in
the State. Hence, the study on the ‘business environmental analysis of service enterprises in Kerala’ is an other area on which researchers can concentrate.

9.7. Conclusion

From the analysis it is obvious that micro and macro environmental factors impact manufacturing enterprises in varying degrees. An understanding of these factors and the efforts to negate the possible unfavourable impact of the same will make the environment more congenial for industrial growth. The association between impact of macro environmental factors and micro environmental factors clearly revealed that the major issues in the industrial field are related to the provision of infrastructure and support facilities. There is a need to formulate policies which focus on problems arising from environmental factors.

The State of Kerala is blessed with natural resources and excellent manpower. We have a high standard of living and a pool of talented entrepreneurs. What we lack is supportive systems and processes; but they are influenced by the political ideology and infrastructural bottlenecks. With a strong political will and courage, our policy makers certainly can make this State favourable to the kind of industries that it can sustain. Since the business environmental factors are beyond the control of entrepreneurs, the creation of a conducive business environment demands the concerted efforts of several stakeholders in the entrepreneurial field, like the State Government, the Central Government, the Industries department, banks, people from local bodies, training agencies, politicians etc. With the whole-hearted support of all the stakeholders mentioned above, a congenial business environment, conducive to the promotion of entrepreneurship and industrial
advancement in the State can be created, particularly for the micro and small manufacturing sectors. A complete understanding of Factors that exist in the environment is a pre-requisite for identifying suitable enterprises for the State and as such this should form the basis for policy parameters.