International Journal of Management, IT & Engineering
Vol. 8 Issue 8, August 2018,
ISSN: 2249-0558
Impact Factor: 7.119Journal Homepage: http://www.ijmra.us, Email: editorijmie@gmail.com Double-Blind Peer Reviewed Refereed Open Access International Journal - Included in the International Serial Directories Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gate as well as in Cabell's Directories of Publishing Opportunities, U.S.A

# Funding Problems of Hosiery Units in Punjab

**NITIN ANAND**
Fashion Design, Dehradun, Uttarakhand, India 248002
stylestatementsddn@gmail.com

**DOI : 10.36893.IJMIE.2018.V8I8.433-442**

## Abstract

Small enterprises play a key role in a nation's socioeconomic development. They truly serve as a means of achieving macroeconomic goals at the national level. The obstacles that SMEs face make it difficult for them to operate and contribute as effectively to the economy as possible. Finance has been cited as one of the most significant concerns among the many that threaten the survival and expansion of small manufacturing firms in developing nations like India. Small and medium-sized businesses have trouble obtaining funding from numerous outside sources. All of this leads to the sector having insufficient money available to it, which in turn results in poor financing. The majority of hosiery stores in Ludhiana struggle with this. These enterprises have the opportunity to grow and to obtain better production technology thanks to having access to financing, which ensures their competitiveness. Yet, getting money for such businesses to start out and grow presents a significant barrier. *The current study aims to investigate the difficulties and issues faced by hosiery businesses in the city of Ludhiana in obtaining financing for beginning and expansion, as well as how this has an effect on their operational effectiveness.* ***According to the study's findings, these units are struggling with serious issues like an inadequate business plan, a lack of knowledge, and incomplete documentation when trying to raise money from external organized sources, all of which have a detrimental effect on their productivity, expansion, and future development.***

## Introduction

It is always believed that the MSME (Micro, Medium and Small Businesses) sector has a very important role in the social and economic growth of our nation by creating jobs, exporting goods and services, and empowering a significant portion of the population economically. The MSME sector fosters entrepreneurship, which is typically driven by the creativity and ingenuity of the individual. This industry accounts for 40% of the nation's exports, 45% of the manufacturing output, and 8% of the GDP of the nation. With 26 million businesses, the MSMEs employ about 60 million people, and their labor-to-capital ratio is substantially larger than that of the large sectors. MSMEs are more evenly distributed geographically as well. MSMEs are crucial to the goals of inclusive growth, or growth that promotes equity and inclusion.

The Economic Survey for 2015–16 states that "MSME is a dynamic and energetic industry that promotes entrepreneurial talent in addition to satisfying social objectives, notably that of providing work for millions of people throughout the country." The largest issue impeding the development of SMEs in India is the absence of adequate and timely credit.

**Statement of the Problem**

Most owners and their relatives run small and medium-sized businesses. In most circumstances, the owners often provide the finance. Small and medium-sized businesses have trouble obtaining funding from numerous outside sources. All of this leads to the sector having insufficient money available to it, which in turn results in poor financing. The majority of hosiery stores in Ludhiana struggle with this. The effects of inadequate financing include:

a) Absence of competent management, which results from owners' incapacity to hire professionals. b) Using outdated machinery and production techniques because the owner lacks access to current technologies. c) Increased competition due to sales, which is the outcome of inadequate financing to deal with the industry's rising competitiveness. d) Inability to avail raw material at adequate time which ultimately has adverse effect on the turnover as well as on the profitability.

The article evaluates the financial difficulties and issues faced by hosiery producers in Ludhiana city in light of the aforementioned information.

**Objectives of study**

• To identify several financing options for hosiery producers in Ludhiana.

• To research the challenges faced by hosiery producers in obtaining funding to sustain and expand their operations.

• To research how financial restrictions affect the effectiveness of their business operations.

## Literature Review

(Advani, 1997) noted that in an effort to quicken the pace of growth in low-income countries, SMEs are one of the main areas of concern for many policy makers. These businesses have been acknowledged as the catalysts for achieving the growth goals of developing nations.

According to Mambula (1997), the Nigerian government has spent a significant amount of money on small business development and entrepreneurship initiatives since the country's independence, with largely dismal results. Sadly, this money rarely reach the intended firm since they could be lost due to administrative red tape and end up in accounts of people who hold public office.

(Kayanula and Quartey, 2000) noted that there is still a skills gap in the SME sector as a whole despite the multiple organisations offering training and advising services. This is a result of both the complacency of those who fail to recognise the requirement of developing their skills and the high cost of training and advisory services, which entrepreneurs cannot pay.

Cook and Nixson (2000) noted that, despite the acknowledgement of SMEs' contribution to development in many developing nations, SMEs' potential to grow is constantly hindered by the lack of financial resources available to meet a variety of operational and investment needs.

According to (Burns, 2001), the main areas where SMEs may need special attention are limited access to finance, a low level of professionalism, difficulty in hiring expert staff, dependence on customers and suppliers, and no economies of scale. These are also identified as the core weaknesses of the SME sector.

According to Fraser (2005), who differs significantly from Cosh and Hughes, 2.9 million SMEs (or 80%) have used external financing in the previous three years. The major sources of funding for start-ups include personal savings, bank loans and loans from friends and family. Also, he discovered that term loans were used by about 900,000 enterprises and that 10% of businesses claimed that securing financing was a significant challenge when they first started out. Additionally, because his study only included individuals who were already in company, it excludes all of the people who gave up after receiving a loan denial.

Access to money is a significant barrier that SMEs in Ghana must overcome, according to Abor and Biekpe's 2006 study. It should be mentioned that there are other factors that limit the growth of SMEs as well.

Kathuria & Mamta, 2012 identified that most of the hosiery units in Ludhiana are dependent upon commercial banks for financing and too much paper work and cumbersome process at initial stage are major constraints for these units.

**Research Hypotheses**

Ho: Financial constraints don't have a significant impact on how hosiery manufacturing facilities operate.

Ha: The operations of hosiery production facilities are significantly impacted by financial constraints.

**Research Instrument and Technique**

The current study is descriptive in nature and relies on source data. The questionnaire is the primary tool used to collect primary data. The survey was created using both open-ended and closed-ended patterns. 50 questionnaires were given to the owners and managers of hosiery manufacturing plants as part of this study. Convenience sampling was used to choose the sample. The questionnaire received 45 responses in total, of which 40 were legitimate and helpful for our study. This amounts to 80%, which is acceptable because it is trustworthy and generalizable. After analysing the questionnaire, the stated hypothese were examined further to see if they could be supported.

**Data Analysis**

**Table 1: Source of financing**

| Source | Yes | No |
|---|---|---|
| Own funds | 40 | 0 |
| Loans from friends/relatives/money lenders | 15 | 25 |
| Bank loans-term loans/CC-OD | 31 | 9 |
| Credit Purchases | 18 | 22 |
| Advances from customers | 10 | 30 |
| Leasing/Hire Purchase | 8 | 32 |
| Under schemes of SIDBI/SFC/NABARD etc | 0 | 40 |

**International Journal of Management, IT & Engineering**
Vol. 8 Issue 8, August 2018,
ISSN: 2249-0558
Impact Factor: 7.119Journal Homepage: http://www.ijmra.us, Email: editorijmie@gmail.com Double-Blind Peer Reviewed Refereed Open Access International Journal - Included in the International Serial Directories Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gate as well as in Cabell's Directories of Publishing Opportunities, U.S.A

The principal sources of financing for the hosiery production units are their own cash, bank loans, credit purchases, etc., according to table 1. Nevertheless, no respondent is raising money through government initiatives like SIDBI, SFC, NABARAD, etc.

**Table2: Importance of Various Sources of Finance**

| **Sources of Finance** | **Most Impor** | **Some what** | **Impor tant** | **Neutr al** | **Not Impor** | **Unkno wn** | **WS** | **SD** | **t value** |
|---|---|---|---|---|---|---|---|---|---|
| Own funds | 28 | 8 | 4 | 0 | 0 | 0 | 4.600 | 0.672 | 15.064 |
| Loans from friends/relatives/money lenders | 10 | 6 | 8 | 11 | 4 | 1 | 3.100 | 1.446 | 0.437 |
| Bank loans-term loans/CC-OD | 15 | 12 | 7 | 2 | 4 | 0 | 3.800 | 1.285 | 3.937 |
| Credit Purchases | 13 | 6 | 10 | 4 | 3 | 4 | 3.250 | 1.660 | 0.952 |
| Advances from customers | 7 | 11 | 10 | 5 | 5 | 2 | 3.100 | 1.446 | 0.437 |
| Leasing/Hire Purchase | 6 | 6 | 17 | 7 | 3 | 1 | 3.050 | 1.218 | 0.259 |
| Under schemes of SIDBI/SFC/NABARD etc | 4 | 8 | 20 | 2 | 5 | 1 | 3.025 | 1.187 | 0.133 |

Table 2 makes it evident that the estimated t value for personal funds is 15.064, which is significantly higher than the table value at the 5% level of significance, or 1.96. It demonstrates that selected firms view their own cash as their most important source of financing. Bank loans are the second significant source that these units take into account because, in this instance, the calculated t value (3.937) is higher than the table value (1.96). The estimated t value is less than table value 1.96 in all other instances, indicating that the hosiery manufacturing units in Ludhiana do not view these sources as important sources of funding. Another significant conclusion from the above is that although while 20 respondents believe that government programmes are a valuable source of finance, of which 4 believe it to be the most valuable and 8 believe it to be somewhat valuable, they do not use it, as shown in Table 1.

**International Journal of Management, IT & Engineering**
Vol. 8 Issue 8, August 2018,
ISSN: 2249-0558
Impact Factor: 7.119Journal Homepage: http://www.ijmra.us, Email: editorijmie@gmail.com Double-Blind Peer Reviewed Refereed Open Access International Journal - Included in the International Serial Directories Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gate as well as in Cabell's Directories of Publishing Opportunities, U.S.A

**Table3: Difficulty in obtaining the finance from external sources**

| Difficulty in obtaining the finance from external sources | **(%)** |
|---|---|
| Obtained the funds required without any difficulty | 20 |
| Obtained all the funds required but with some problems | 50 |
| Obtained some but not all the funds required | 30 |
| Unable to obtain any funds | 0 |

As seen in Table 3, 20% of the respondents easily secured all necessary funding. 30% of the required cash were partially obtained, with 50% obtaining them with considerable difficulty. It demonstrates that despite the Ludhiana hosiery manufacturing facilities are able to collect money, they are still having issues.

**Table 4: Problems in obtaining funds**

| **Problems in obtaining funds** | **Strongly agree** | **Agree** | **Neutral** | **Disagree** | **strongly Disagree** | **Unknown** |
|---|---|---|---|---|---|---|
| No/ Insufficient Security | 8 | 8 | 11 | 7 | 4 | 2 |
| Poor Personal Credit History | 8 | 8 | 14 | 5 | 3 | 2 |
| Lack of adequate Knowledge | 16 | 12 | 3 | 5 | 3 | 1 |
| Inadequate Business Plan | 12 | 12 | 8 | 4 | 2 | 2 |
| Lack of Guarantee | 8 | 8 | 10 | 8 | 6 | 0 |
| Incomplete Documentation | 15 | 14 | 4 | 4 | 2 | 1 |
| Time Consuming and Cumbersome Procedure Manufacturing Units. | 16 | 12 | 4 | 4 | 2 | 2 |

Table 4 shows that the majority of respondents strongly concur with the issues of inadequate business plans, time-consuming and laborious processes, incomplete documentation, and lack of adequate understanding when it comes to seeking capital. The responders concur with the other issues with money raising as well.

**International Journal of Management, IT & Engineering**
Vol. 8 Issue 8, August 2018,
ISSN: 2249-0558
Impact Factor: 7.119Journal Homepage: http://www.ijmra.us, Email: editorijmie@gmail.com Double-Blind Peer Reviewed Refereed Open Access International Journal - Included in the International Serial Directories Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gate as well as in Cabell's Directories of Publishing Opportunities, U.S.A

**Table 5: Effect of Financial Problems on Business Activities**

| Effect | Yes (%) | No (%) |
|---|---|---|
| Inability to access new technology | 75 | 25 |
| Untimely availability of raw material | 55 | 45 |
| Inability to employ competent personnel | 40 | 60 |
| Ineffective market campaign | 35 | 65 |
| Unable to upgrade infrastructure | 82.5 | 17.5 |

According to Table 5, almost 83% of respondents stated that their inability to modernise infrastructure is the main way that financial issues have an impact on their organisation. 75% of respondents claimed that they are also unable to use modern technologies, and 55% claimed that a lack of cash prevents them from getting raw materials in a timely manner. The effectiveness of marketing initiatives and the hiring of qualified staff is less affected.

**Table6: Impact of Financial Constraints on Business Efficiency**

| **Impact** | **Strongly** | **Agree** | **Neutral** | **Disagree** | **strongly Disagree** | **Unknown** |
|---|---|---|---|---|---|---|
| Problem of obtaining funds act as a constraint in achieving competitive advantage | 20 | 8 | 5 | 3 | 4 | 0 |
| Problem of obtaining funds act as a constraint in achieving economies of scale | 18 | 10 | 7 | 3 | 1 | 1 |
| Problem of obtaining funds act as a constraint in further growth and development of business | 22 | 9 | 4 | 2 | 3 | 0 |

Table 6 shows that the majority of respondents firmly concur that the difficulty in acquiring financing is a significant barrier to achieving economies of scale, competitive advantages, and continued business expansion and development.

**Research Hypotheses Testing**

**Table 7: Hypothesis Testing of Impact of Financial Constraints on Business Efficiency**

| Null Hypothesis | WS | SD | t-Value | Accepted/Rejected |
|---|---|---|---|---|
| Problem of obtaining funds do not act as a major constraint in achieving competitive advantage | 3.925 | 1.366 | 4.283 | Rejected |
| Problem of obtaining funds do not act as a major constraint in achieving economies of scale | 3.950 | 1.260 | 4.769 | Rejected |
| Problem of obtaining funds act as a constraint in further growth and development of business | 4.125 | 1.244 | 5.719 | Rejected |

Table 7 shows that the null hypothesis is rejected for all three hypotheses because the calculated t values are higher than table values at the 5% level of significance. This indicates that the difficulty in obtaining funding significantly limits the ability of the business to gain a competitive advantage, realise economies of scale, and experience further growth and development.

**Findings of the study**

• The main sources of funding for the majority of the hosiery manufacturing businesses in Ludhiana city are their own funds and bank loans. They rely on credit purchases, client advances, loans from friends and family, leasing, and hire-purchase to some extent. However, despite the fact that many of them are aware of NABARAD, SIDBI, and SFCs programmes, they do not use them.

- These businesses are having a difficult time securing funding for both their initial operations and future expansion, with large and significant issues including limited understanding, incomplete paperwork, a weak business strategy, and lengthy and onerous procedures.
- These units' capacity to upgrade their infrastructure, have access to new technology, and get raw materials on time is negatively impacted by a lack of funding.
- A major barrier to establishing competitive advantage, economies of scale, and ongoing expansion and development of these units is a lack of funding.

**Recommendations**

Based on the study's findings, we advise the feed production facilities to take use of the government programmes that are now in place. Despite their knowledge of these programmes, these facilities do not currently use them as a means of financing their operations.

Another suggestion is that the government and other non-governmental organisations should conduct seminars for small and medium enterprise operators in order to educate them regarding how to arrange funds for the growth and development of their business. The major issues faced by them are lack of adequate knowledge, incomplete documentation, and inadequate business plans. The government and banking institutions should bring back rapid loans for small and medium-sized businesses.

**References**

1. Abor, J., & Biekpe, N. (2006), Small business financing initiatives in Ghana. *Problems and Perspectives in Management, 4*(3), 69-77.
2. Advani, A. (1997) "Industrial Clusters: A Support System for Small and Medium-Sized Enterprises", Private Sector Development, World Bank Occasional Paper No. 32, World Bank, Washigton, DC.
3. Basu, A. (1998) The Role of Institutional Support in Asian Entrepreneurial Expansion in Britain, Journal of Small Business and Enterprise Development, 5 (4): 317-326
4. Beck, T., & Demirguc-Kunt, A. (2006). Small and medium-size enterprises: Access to finance as a growth constraint. Journal of Banking & Finance, 30(11), 2931–2943. https://doi.org/10.1016/j.jbankfin.2006.05.009

5. Beck, T., Demirgüç-Kunt, A., & Maksimovic, V. (2005). Financial and Legal Constraints to Growth: Does Firm Size Matter? The Journal of Finance, 60(1), 137–177. https://doi.org/10.1111/j.1540-6261.2005.00727.x
6. Broom, H.N., and Longenecker, J.G. (1975) *Small Business Management* (4th ed.), South-Western Publishing Company. Cincinnati: South-Western Publishing.
7. Cook, P. and F. Nixson, (2000) "Finance and Small and Medium-Sized Enterprise Development", IDPM, University of Manchester, Finance and Development Research Programme Working Paper Series, Paper No 14.
8. FICCI MSME Summit February (2012) Innovation & Clusters, Innovation Readiness of Indian SMEs: Issues & Challenges, New Delhi
9. Fraser, S. (2005) Finance for Small and Medium Sized Enterprises: A Report on the 2004 UK Survey of SME Finances, Warwick Business School: Coventry
10. Kathuria, L. M., & Mamta. (2012). Understanding Financing Practices and Constraints of Small and Medium Enterprises in Textile and Clothing Sector: An Empirical Study. Asia-Pacific Journal of Management Research and Innovation, 8(3), 303–314. https://doi.org/10.1177/2319510X1200800310
11. Kaur, P., & Kaur, S. (2015). Environmental Sustainability: A Distinguishing Cognizance in Hosiery Industry of Ludhiana. Environment Conservation Journal, 16, 49–57. https://doi.org/10.36953/ECJ.2015.16307
12. Kayanula, D. and P. Quartey, (2000) "The Policy Environment for Promoting Small and Medium-Sized Enterprises in Ghana and Malawi", Finance and Development Research Programme, Working Paper Series, Paper No 15, IDPM, University of Manchester.
13. Lane, C. and Quack, S. (1999) Social Dimensions of Risk: Bank Financing of SMEs in Britain and Germany, Organization Studies, 20 (6): 987-1111
14. Ligthelm, A. and Cant, M.C.(2002) *Business success factors of SMEs in Gauteng*. Pretoria: University of South Africa.
15. Little, I.M.D., Mazumdar, D & Page Jr, J.M. (1987) *Small Manufacturing Enterprises: A Comparative Analysis of India and Other Economies. A World bank Research Publication.* Oxford University Press: New York.