A STUDY OF RELATIONSHIP BETWEEN RECEIVABLES MANAGEMENT VARIABLES OF MICRO SMALL AND MEDIUM ENTERPRISES (MSMES) IN TAMILNADU AND THEIR PROBLEMS

Dr. V. M. Ponniah[*]

Keywords: *Receivables Management- MSME Entrepreneurs- business with top customers- doubtful debts -problems perceived*

Introduction:

There is no universally accepted definition to define a Micro, Small and Medium Enterprises. The definition is based on measures which include employment, gross income/ sales investment, shareholder fund etc and it varies from country to country. Further, within the same country, different definitions of MSMEs prevail for different purposes. Such variations make inter-country comparison very difficult, even when data are available, according to Prasad C S. According to Pathak H N (1972), the problems are really traceable to the fundamental weakness stemming from limited understanding of some of the elementary concepts of costing.

According to the author Mathew P M (2000), existing laws often ignore the social framework within which a small entrepreneur must operate. Delayed Payment Act was passed by the Parliament in India, after repeated representations by small entrepreneurs and their associations. But the individual entrepreneurs are reluctant to make use of the provisions of the Act for fear that customers pressed for payment may not place fresh orders.

This research paper is based on empirical study conducted by the author by administering questionnaire among MSME entrepreneurs in Tamilnadu. The latent association between these receivables management   variables   and problems normally perceived by MSME entrepreneurs is established statistically.

[*] Professor, School of Management, SRM University, Chennai

A Monthly Double-Blind Peer Reviewed Refereed Open Access International e-Journal - Included in the International Serial Directories
Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gage, India as well as in Cabell's Directories of Publishing Opportunities, U.S.A.
International Journal of Physical and Social Sciences
http://www.ijmra.us

5

1. MICRO, SMALL AND MEDIUM ENTERPRISES (MSMES) IN INDIA

The performance of Micro, Small and Medium enterprises (MSMEs) in India has been improving. The history of funding of the MSMEs reveals that the sector has been mostly relying on self finance and debt finance through banking system. Liberalization has exposed Indian MSMEs to unequal competition with its counterparts in the industrially advanced countries. In India, small scale industry along with those engaged in services sector is covered in MSMEs since 2006. Lack of demand and shortage of working capital are the main reasons for acute and incipient sickness in both the registered and unregistered SSI sectors.

MSMEs are bound to have the shortcomings in terms of quality, financial strength, capacity utilisation, technological superiority as compared to larger enterprises run by professionals; however they are duty bound to run their business effectively, facing challenges. The predominant problem include the financial chain of MSMEs, which is directly correlated with periodical and timely realization of receivables, to run the business successfully.

2. NEED FOR THE STUDY

The study is explorative in nature. Though many research studies on MSMEs have been undertaken on the *liability side* of a balance sheet, ie, capital structure, own financing, challenges in obtaining institutional /bank finance etc, limited number of   studies have been carried out on the *asset side* of a balance sheet.

This study involves collection of both primary and secondary data. The primary data were collected through a field survey using a structured questionnaire. The secondary data were collected through Indian and foreign journals,   magazines and financial dailies.Reserve Bank of India website, MSME website, Government of Tamilnadu website.

MSME units located in Tamilnadu form the target population and questionnaires were collected from   525 MSMEs located in 12 revenue districts during the period from 2009/ 2010.

3. OBJECTIVE OF THE STUDY

While managing the day to day affairs of the business, MSME face problems and these problems are mainly falls under the domain of marketing, finance, human resources, operations etc. Receivables management is not a   unique phenomenon but it is   a mixture of portfolio of customers, ability to receive advances, credit allowed and their collection.

Bala Subrahmanya, M.H. (2004) studied the impact of globalization and domestic economic reforms on small industry. Small industry has suffered in terms of growth of units, employment, output and export. But the policy changes have also thrown open new opportunities and markets for the sector.

Ole Henning Sorensen, Peter Hasle, Elsa Bach (2007) explored risk involved in small enterprises and ascertained how the risks have been developed from the domains of operations, finance and marketing.

Ponniah V M. and Dr. Prof. Chandra Mohan A (2011), while delivering their research paper on MSMEs at 98 th Indian Science Congress, SRM University, Kattankulathur, Tamilnadu, stated that an export business, whose owner was unable to recognise the opportunity would slowly lose his capacity to take risks. It might soon get downsized to a sub-contract unit and finally, become defunct and shut down.

Review of literature helped to finalise the questionnaire to collect relevant details for studying the influence of problems normally faced by MSMEs on the receivables management variables of an MSME. In this research paper relationship between problems normally faced by MSMEs and their influence on the receivables management variables are studied.

4. RECEIVABLES MANAGEMENT VARIABLES AS *DEPENDENT VARIABLES*

Receivables Management variables, as derived from the Review of Literature and based on the outcome of discussions had with MSMEs, Bank Managers etc are used for this study; they are listed below:

i) Total income earned by MSMEs through top one customer

ii) Total income earned by MSMEs through top three customers

iii) Doubtful Debts, as a percentage of annual sales / income

iv) Advances received before supplying the goods/ providing the services

v) Advances received at the time of supplying the goods / providing the services

vi) Credit period allowed to most of their customers

vii) Receivabls collected from their customers, within the credit period allowed.

For the present study, first three variables, viz business *with top one customer, top three customers and doubtful debts as a percentage of annual sales* alone are considered

5. PROBLEMS FACED BY MSMES AS *INDEPENDENT VARIABLES*

Sukanta Kumar Sahoo (2004)   concluded that the small scale sector is the symbol of that facet   of our economy, which reflects production by masses rather than mass production. To facilitate sustainable and   growth in their performance, an MSME need to overcome the problems. Twenty five questions were used to obtain the opinions of MSME entrepreneurs on the problems under functional domains of marketing, finance, human resources, operations and general issues. The opinion of MSMEs is obtained through Likert's five point scale ranging from *strongly agree to strongly disagree.*

6. FINDINGS OF THE STUDY

General Linear Multivariate Model was used for determining the influence of problems normally faced by MSMEs on the following receivables management variables:

1) Business of MSME with top one customer

2) Business of MSME   with top three customers

3) Doubtful debts as a percentage of annual sales

The perceptional difference of problems and their influence over   business with top one customer, business with top three customers, and doubtful debts are sharply estimated through General Linear Multivariate Model and are furnished in Table 1.

The individual influence is also sharply estimated through differences in variances. It is ascertained that different types of problems significantly create influence over business with one customer (F=13.979), business with three customers (F=4.127) and doubtful debts (F=6.075) significantly at 5% level.

Therefore it can be concluded that the problems of MSMEs are highly influencing the receivables management on the basis of number of customers and doubtful debts. Further it is discerned that these problems are able to measure   the   percentage of doubtful debts. MSMEs those are able to be aware such influences of problems on the receivables management variables are expected to initiate   appropriate strategy well in advance. Proportion of the annual business with top one customer and top three customers should be determined by the MSME entrepreneur strategically and should be reviewed periodically.

Further the outcome of the study is expected to add value to the existing body of knowledge on one of the vital component in current assets, (on the asset side of a balance sheet where literature provides limited research only)

APPENDIX 1.

TABLE 1   OUTPUT OF MULTIVARIATE TESTS TO DETERMINE THE INFLUENCE OF PROBLEMS ON RECEIVABLE MANAGEMENT VARIABLES

Effect		Value	F	Hypo-thesis df	Error df	Sig.
Inter-cept	Pillai's Trace	.567	227.401(a)	3.000	521.000	**.000**
	Wilks' Lambda	.433	227.401(a)	3.000	521.000	**.000**
	Hotelling's Trace	1.309	227.401(a)	3.000	521.000	**.000**
	Roy's Largest Root	1.309	227.401(a)	3.000	521.000	**.000**
QCL_1	Pillai's Trace	.053	9.639(a)	3.000	521.000	**.000**
	Wilks' Lambda	.947	9.639(a)	3.000	521.000	**.000**
	Hotelling's Trace	.056	9.639(a)	3.000	521.000	**.000**
	Roy's Largest Root	.056	9.639(a)	3.000	521.000	**.000**
Source : Output of analysis						

a Exact statistic

b Design: Intercept+QCL_1

From the above table, it is found that the statistics Pillai Trace, Wilks' Lambda and Hotelling's Trace and Roy's Largest Route and their F values 9.639 are statistically significant to express the influence of different types of problems on receivables management variables namely business with one customer, business with three customers and doubtful debts.

Detailed output is furnished in Table 2

TABLE 2 TESTS OF BETWEEN-SUBJECTS EFFECTS

Source	Dependent Variable	Type III Sum of Squares	df	Mean Square	F	Sig.
Corrected Model	Business of MSME with top one customer	13.979(a)	1	13.979	12.849	**.000**
	Business of MSME with top three customers	4.127(b)	1	4.127	4.213	**.041**
	Doubtful debts of MSMEs as a percentage of annual sales	6.075(c)	1	6.075	11.901	**.001**
Intercept	Business of MSME with top one customer	399.418	1	399.418	367.115	**.000**
	Business of MSME with top three customers	223.762	1	223.762	228.461	**.000**
	Doubtful debts of MSMEs as a percentage of annual sales	119.359	1	119.359	233.831	**.000**
QCL_1	Business of MSME with top one customer	13.979	1	13.979	12.849	**.000**
	Business of MSME with top three customers	4.127	1	4.127	4.213	**.041**
	Doubtful debts of MSMEs as a percentage of annual sales	6.075	1	6.075	11.901	**.001**
Error	Business of MSME with top one customer	569.019	523	1.088		
	Business of MSME with top three customers	512.243	523	.979		
	Doubtful debts of MSMEs as a percentage of annual sales	266.965	523	.510		
Total	Business of MSME with top one customer	2390.000	525			
	Business of MSME with top three customers	2387.000	525			

Source	Dependent Variable	Type III Sum of Squares	df	Mean Square	F	Sig.
	Doubtful debts of MSMEs as a percentage of annual sales	1423.000	525			
Corrected Total	Business of MSME with top one customer	582.998	524			
	Business of MSME with top three customers	516.370	524			
	Doubtful debts of MSMEs as a percentage of annual sales	273.040	524			

a R Squared = .024 (Adjusted R Squared = .022)

b R Squared = .008 (Adjusted R Squared = .006)

c R Squared = .022 (Adjusted R Squared = .020)

Source : Output of analysis.

APPENDIX 2

References:

1. Dr Vasanth Desai (2004) " *Small Scale Industries and Entrepreneurship*"

2. Jain S.K. "*How can Indian SMEs meet the challenges of globalization*?" (April- September 2001)

3. Jan Gomes.,2001,"*SMEs and Industrial Clusters- Lessons for India from Italian Experience,*" J. Economic and Political Weekly.

4. Jain S C .,1971," *Institutional Finance of Small Scale Industries in UP since 1956 with particular reference to Meerut,*" Agra University, Agra, India

5. Mathew P M .,2000,"*Small Industries- Problems of Policy,*" J .Economic and Political Weekly, India

6. Ole Henning Sorensen, Peter Hasle.,and Elsa Bach.,2007,"*Working in Small Enterprises- Is there a special risk?,*" J.Safety Science

7. Pathak H N 1972." *The Entrepreneur Technical and Manager in the Small Scale Units,*" J.Political and Economic weekly.

8. Prasad C S(2002) Micro Small and Medium industries in India – AN Engine of Growth- published by the office of DC (MSME) Ministry of MSME, Government of India, and New Delhi

9. Pedro Juan Garcia., Teruel and Martinez Solana(2010*)," Determinants of trade credit: A comparative study of European SMEs,*" Journal of International Small Business

10. Ponniah V M ., and Dr Chandra Mohan.,2011.,"*Empirical Relationship between Entrepreneurial aspects and their problems,*" Times of India, Chennai edition, 7th January 2011

11. Ponniah V M, "Receivables Management of Micro Small and Medium Enterprises (MSMEs): A study of MSMEs in Tamilnadu', thesis submitted at SRM University, Chennai.

12. Rajendra Nargundkar (2008) " Marketing *Research – Text and cases* (Third Edition) Tata McGraw Hill Education Private Limited, New Delhi

13. Sukumal Datta,2010," *Strategic Management for growth of SME sector,*" The Management Accountant

14. Task Force of Prime Minister of India on MSME,(2010), Government of India, New Delhi, India

----

A Monthly Double-Blind Peer Reviewed Refereed Open Access International e-Journal - Included in the International Serial Directories
Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gage, India as well as in Cabell's Directories of Publishing Opportunities, U.S.A.

International Journal of Physical and Social Sciences
http://www.ijmra.us

12

APPENDIX 3

THE RESEARCH PAPER PRESENTED BY THE AUTHOR AT THE 98th INDIAN SCIENCE CONGRESS AT SRM UNIVERSITY, TAMILNADU ON 6 JANUARY 2011

The research paper presented by the researcher at 98th Indian Science Congress at SRM university, Tamilnadu on 6 January 2011 was published in the TIMES OF INDIA, Chennai edition next day. The same is furnished below:

Need soft skills to better business, finds TN study

TIMES NEWS NETWORK

Pics: A Prathap

Chennai: Is your export business going downhill? Maybe you need to find out how you have been managing it from the start before it slips out of hand. More than financial acumen, factors like age, gender and educational qualification have a direct impact on your small-scale unit, according to a recent study.

Many who start businesses with much gusto, lose steam halfway through because they don't have the expertise to manage them. And if you don't know your way around your biggest client, then chances are that you will not see the opportunities to maximise from that contact, says the study.

A sample survey of 525 small and medium industrial units across TN throws light on how entrepreneurs from Kancheepuram, Tiruvallur, Madurai, Salem and Tiruchi fare when it comes to facing hurdles in their businesses. Professor VM Ponniah, who presented a paper on the subject at the 98th Indian Science Congress on Thursday, says his study explores the 'Empirical Relationship Between Entrepreneurial Behavioural Aspects and Their Problems'.

His conclusions are based on the survey carried out between December and Janu-

ALL BUSINESS: Professor VM Ponniah says there is a lack of awareness about business practices among entrepreneurs

ary 2010 among owners of industrial units. "My study shows that several factors, including gender, age, educational qualification, and who motivated the entrepreneur to start the business have an impact on the future of the enterprise," says Ponniah.

Ponniah and his colleague A Chandramohan identified several entrepreneurs in 10 towns and tried to understand their problems. "We also collected data such as the year of establishing the business, form of ownership, line of activity and the type of business to get a better idea on how these factors influence businesses," he says.

The researchers found that many of these variables had direct connection to the problems faced by entrepre-

neurs. "People who are educated are better placed to identify the value of their biggest client. They manage their business better than others with 10 different clients," he says.

Lack of awareness about basic business practices was a finding that really surprised the professor. "Out of the 525 units, only 172 were paid when they delivered goods. The rest didn't know or were unable to collect their payments." The implication is simple. "An export business, whose owner is unable to recognise the opportunities will slowly lose his capacity to take risks. It might soon get downsized to a subcontract unit and finally become defunct and shut down," he says.

APPENDIX 4

Profile of the Author

V M Ponniah, Professor of Management Studies, SRM University, since 2004, is a Mechanical Engineer from Madurai-Kamaraj University, Tamilnadu and gained 25 years of corporate experience in Indian Railways and Indian Bank before joining as a faculty member in 2004.. He acquired Ph.D in Management in April 12, (SRM University), MBA (University of Madras), FCMA (Institute of Cost Accountants of India, Kolkata), CAIIB (Indian Institute of Bankers, Mumbai) and PGDFM (Annamalai University).   He has presented 15 papers in various National /International Conferences. He has published 8 articles in various journals. He has chaired five Technical Sessions at various conferences. He in one of the member of International Editorial Board of the Journal, *The Macrotheme Review*, Paris, France

Under his guidance,   SRM School of Management got HSBC grant of USD 350 for the *Financial Literacy Programme* during 2008.   One of the member in 2008 in the panel discussions held at SRM University, jointly with North Eastern University, Boston,   *Extending reach to Indian Entrepreneurship*. He was the coordinator, for the International Conference *on Global Entrepreneurship* in 2007 held at SRM School of Management.

As Faculty Advisor, he led SRM students to Boston, USA in Feb 2012 to participate in Harvard National Model United Nations (HNMUN 2012). As coordinator in the International Relations Cell, he visited   Kenya, Rwanda, Uganda Tanzania and Mauritius during 2011 for promotion of various programmes conducted in SRM University. He had also visited Malaysia and France for presenting research paper in international conferences and London for academic purpose.

A Monthly Double-Blind Peer Reviewed Refereed Open Access International e-Journal - Included in the International Serial Directories
Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gage, India as well as in Cabell's Directories of Publishing Opportunities, U.S.A.

International Journal of Physical and Social Sciences
http://www.ijmra.us

14