

## SYNOPSIS

# PERFORMANCE OF MICRO-ENTERPRISES OF SHG ENTREPRENEURS

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### **1. INTRODUCTION**

The Planning Commission (2006) in its approach paper to the Eleventh Five Year Plan, had remarked that growth oriented policies should be combined with those ensuring broad based per capita income growth benefiting all sections of the population, specially the poor and the marginalised. Equitable and inclusive growth as envisaged would require employment generation, which may ensure sustainable livelihoods. It is thus imperative to increase self employment opportunities which can be generated through the development of micro-enterprises. For those aspiring to start a micro-enterprise, the capital investment though small, is difficult to mobilise particularly if they belong to the poor and marginalised sections of the society and in the case of the enterprise being initiated by a woman it may be almost impossible. Kulshrestha (2000) identified the lack of capital as a major constraint to the development of women in rural areas, which was mainly due to lack of identity and assets as collateral security. Pal (1995) pointed out the fact that the formal banking sector and the conventional lending institutions all over the world and in India, ignored the women for many years, and did not lend to the poor who aspired to become micro-entrepreneurs.

The advent of self help groups, microfinance and micro-credit brought about a change, bringing about greater inclusion of the poor into the formal banking sector. The main objective of microfinance, considered as a grassroots instrument to alleviate poverty is primarily to be achieved through micro-enterprises that would ensure livelihoods (Anderson *et al.*, 2002; Evans *et al.*, 1999; Tietze *et al.*, 2007 and Woller and Woodworth, 2001). Micro-enterprises require small loans, or 'micro-credit' which is the term used for extending small loans to very poor people, especially women, for generating income through self-employment activities. According to Anderson *et al.*, (2002), the objective of micro-credit is to break the vicious circle of poverty consisting of low capital, productivity, income and savings and is intended to enable the borrowers, primarily the poor women, to buy the goods that are needed to start or improve an existing small business.

A variety of government-sponsored programmes, providing a wide range of incentives as well as financial support, were initiated to support small enterprise development in many countries. Though it is the Central and the State governments that provides subsidies in most cases, there are programmes like TUP (Trickle UP is funded by an US based organisation) which also provide micro grants. Basu (2008: p.291) who wrote on TUP's experience recorded that a minimum seed capital grant (100 US\$) allows people at the lowest rung of the economic hierarchy to take certain risks, which they may not if only credit (which need to be repaid) was made available.

In India, national level programmes like the *Rajiv Gandhi Udyami Mitra Yojana* provided handholding or support to micro-enterprises. One such support is the subsidy (financial grant or assistance) which is referred as 'margin money' in the *Prime Minister's Employment Generation Programme* (PMEGP). The objective of the above was to generate 37.38lakh additional employment opportunities by facilitating self-employment and entrepreneurship in the rural and urban areas.

Other than these recent programmes, number of initiatives like the *Integrated Rural Development Programme*(IRDP), *Swarnajayanti Gram Swarozgar Yojana*(SGSY), *Swarna Jayanti Shahari Rozgar Yojana*(SJSRY) were undertaken with similar objectives. The specific objective of programmes like the SGSY was to bring the assisted families (swarozgaris/self-employed) above the poverty line by ensuring appreciable and sustainable levels of income over a period of time. Some of them gave thrust to promoting group entrepreneurship as group approach was considered to be more suitable for targeting such schemes at the poor (Bogaert and Das, 1989).

The extent of poverty is determined by the nature of employment opportunities available in a region. The Human Development Report (2005) mention, unemployment, undoubtedly is the most serious form of capability failure in Kerala. The state has the highest unemployment rate in the country (Government of Kerala, 2005). Zachariah and Irudaya Rajan (2005) give the unemployment rate for women to be as high as 41 per cent while it was 19.2 per cent in the case of the total labour force. NSSO (1999-00) data showed that a higher proportion of housewives in Kerala, in comparison to all-India levels, by main occupation, were engaged in the maintenance of kitchen garden, poultry and cattle and free tutoring of own/other's children. Since high levels of unemployment is not desirable as it may lead to inequality and poverty there was a need to tackle it, mainly by generating opportunities for entering in to self employment. *Kudumbashree* was one of the means to achieve this end, as it envisaged micro-enterprise development for tackling the problem of unemployment and thereby poverty.

*Kudumbashree* ( means 'prosperity of the family' in Malayalam), was the anti-poverty programme launched by the government of Kerala in 1998, with the specific objective of removing absolute poverty within ten years, and to bring about equal economic opportunities to the poor womenfolk both in rural and urban Kerala. Under the programme every family below the poverty line was organised into a Neighbourhood Group or NHG (SHG is popularly known as NHG under *Kudumbashree*) at the grass roots level. Every NHG, a voluntary association and the building block of the CBO, consist of 20 to 40 women members, who represent poor households in a neighbourhood and are identified through the application of a nine point risk factor criteria (Raghavan, 2009). Area Development Society (ADS), the middle structure, is formed at the ward level by federating 8-10 NHGs belonging to a particular ward or area. Community Development Society (CDS) is the crest of the structure, at the *Panchayat*, Block or District level, which is formed by federating all ADSs. In early 2010, under *Kudumbashree* there were 201211 NHGs, over 17526 ADSs and 1061 CDSs ([www.kudumbashree.org](http://www.kudumbashree.org)).

*Kudumbashree* supports the formation of 'activity groups' from NHGs which have been in existence for a minimum period of six months. This is done so that only those members from the NHG who are 'interested' and 'willing to take the risk' of running

an enterprise are involved in the formation of the enterprise. NHGs are large (with 35-40 members in many), and all members may not be keen to enter in to enterprise activity, which is generally perceived to be risky. The Eleventh Five Year Plan, with a goal of increasing employment opportunities envisaged that 30000 group enterprises would be set up by *Kudumbashree* and 50,000 by the local self government (LSG) during the plan period. Support in terms of training, consultancy and subsidy was provided by the *Kudumbashree* mission towards micro-enterprise development.

Though there are different definitions<sup>1</sup> on micro-enterprises, *Kudumbashree* defines group operated micro-enterprises as:

- Those with an investment ranging from ₹ 5,000 to ₹ 2,50,000
- Those having a potential to generate a net income of at least ₹ 1,500 per member in a month
- Those with a minimum annual turnover ranging between ₹ 1,00,000 to ₹ 10,00,000
- Those which are fully owned, managed and operated by members themselves, preferably by women below poverty line families

The selection of SHG operated group enterprises in the sample, was exclusively from the *Kudumbashree* supported group operated micro-enterprises, as mentioned above.

## 2 LITERATURE REVIEW

The micro-enterprise sector is very important for broad-based economic development, as well as for basic economic survival of households, who may engage in more than one micro-enterprise, for additional income or to temporarily replace wages, and in some cases salaries (Mead and Leidholm, 1998). Micro-enterprises engage in informal activities and as Versluysen (1999:27) states, the sector “*encompasses the universe of micro-enterprises*”. In the rural areas, these exclude on-farm work but include off-farm activities like processing and packaging the produce, milling of grains etc. Self employed in rural areas may include craftsmen and artisans, black smiths, carpenters, cobblers, tailors, peddlers, teashop owners, small retailers and so on. Minniti *et al.*, (2006), pointed out that in developing economies the women who face higher barriers to entry in the formal labour market have to resort to entrepreneurship as a way out of unemployment and, often, out of poverty.

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1 An A micro-enterprise as per the Micro, Small & Medium Enterprises Development (MSMED) Act 2006, is one where investment does not exceed Rs.25lakhs if engaged in the manufacturing sector, while in the case of services sector the investment should not exceed Rs.10lakhs. NSSO (2000), defines it on the basis of number of employees (five or fewer), there are at least 44 million non-agricultural unincorporated or proprietary enterprises in India out of which, 64 per cent (roughly 29 million) were microenterprises with five or fewer employees. Mead and Leidholm (1998) defined micro-enterprises as those requiring very small amount in terms of start-up capital, with initial capital requirements ranging from 49 USD in Sierra Leone to 2,104 USD in Jamaica. The average size of credit requirement for these enterprises was just 38USD in Indonesia while in Bangladesh, in the case of those promoted by the *Grameen* Bank, it was 25,000 rupees. Dhar (2005), who researched on Integrated Rural Development Programme (IRDP), identified micro-enterprises as those whose loan requirement was ranging from Rs. 6,000 and Rs.10, 000. Donner and Escobari (2010) stated that there is no consensus in the research literature about the definition of a “micro-enterprise” while Esselaar *et al.*, (2007) classified micro-enterprises or small businesses in to “informal operators/survivalists” as businesses with no employees, “informal micro or small businesses” as businesses with fewer than ten hired workers, and “formal micro or small businesses” as enterprises that employ between 10 and 49 workers.

An SHG, is an informal association consisting of around 10–20 women belonging to the poorer strata of the society, from similar socio economic background and in India, were more prevalent in rural in comparison to urban areas (Shylendra,2008) The group members came together to attain some common goal and the principle of collective responsibility which according to Jawahar *et al.*, (2005) made an impact on the lives of a number of individuals and communities and improved the position of women. Guha (2010) in a study on SHGs across four states not only assessed the impact of micro-enterprises or income generating activities taken up SHG members on their livelihoods but also looked into the problems faced by them. Also those venturing into micro-enterprises and income generating activities absorbed higher loans but higher investment by enterprises did not necessarily result in higher incomes. The increase in income was much higher for those venturing into either an ME or an IGA, in comparison to those SHGs that did not undertake any productive activities. Both backward and forward linkages were crucial for sustainability, with many enterprises experiencing problems with regard to regular availability of inputs and in marketing. Some of the major suggestions for improvement included linking SHG member entrepreneurs to technical institutes for developing skills, capacity building, marketing support, and facilitation of use of new and innovative technology for improving production processes and margins.

Oommen (2007) concluded that “a good number (30 to 40%) of micro-enterprises operated by SHG women turned out to be non-functional after one or two years of their initial working” based on a study of *Venganoor Panchayat* in Kerala. Performance of micro-enterprises operated by SHG women is the focus of this research, for which a better understanding on small enterprise development in general and performance of small firms as a whole from the mainstream literature require discussion. This was a necessity as literature available on performance of group enterprises operated by women belonging to SHGs was few.

## **2.1 Conceptual Framework of Performance**

The success of new enterprises was an outcome of relationships among variables like the personal characteristics, skills and background of the entrepreneur; the nature and structure of the organisation or the service that the enterprise had developed and the organisational and the environmental factors that influenced its inception (Amit *et al.*, 1993., Levy, 1993 and Bygrave, 1993). Various factors relating to the entrepreneur, the organisation and the environment determined the success of a venture (Schutzens and Wever, 2000), while various components of the entrepreneurial process itself was more important for determining the performance (Shane, 2003). In a study undertaken to gauge the success of social ventures or enterprises initiated by individual social entrepreneurs, Sharir and Lerner (2006) classified variables that may affect performance along four dimensions. These were related to the individual (or entrepreneur), the environment, the organisation, and the process.

In order to understand the performance of group operated enterprises, this research considered certain variables and grouped them broadly under four dimensions following Cooper (1985) as well as Sharir and Lerner (2006) with some modifications

to suit group entrepreneurship. These were the group (members in activity group operating the enterprise); enterprise; environment and the process.

## **2.2 Measurement of Performance**

The difficulties and challenges in establishing a business enterprise or new venture, the characteristic uncertainty as well as the lack of resources and stability have made some researchers to conclude, that survival of the firm or continuity of the business enterprise, to be the chief dimension of success (Van De Ven, 1984). This may be highly true in the case of the group operated micro-enterprises due to complexity of ownership and operations. A number of studies have suggested that growth (in either sales revenues/turnover or number of employees or both) influenced future and potential of the enterprise (McGee *et al.*, 1995; Merz and Sauber, 1995). The average monthly turnover growth was taken as the measure of enterprise growth in studies conducted by researchers like Ilavarasan and Levy (2010) and Chew *et al.*, (2011). In group enterprises, the income generated from the enterprise to individual members is also an important measure of performance which would be determined by many factors like demand for the product, cost of production, turnover/total sales receipts, but also the group size.

## **3 RATIONALE OF THE STUDY**

The success, stability and sustainability of group operated micro-enterprises have a significant impact on the confidence of others belonging to different SHGs. Failure of one enterprise may act as a deterrent to those who may have planned on starting similar micro ventures. A micro-enterprise, the formation of which is facilitated through microfinance, and operated by groups of women belonging to SHGs, may behave differently from mainstream small business enterprises. The micro-enterprise which is owned and operated by women belonging to SHGs is different, and there is lack of relevant research about such group run enterprises.

## **4 PURPOSE AND OBJECTIVES OF THE STUDY**

The main purpose of the study was to understand the performance of group operated micro-enterprises with the following specific objectives.

1. To analyse the performance of micro-enterprises owned and operated by women belonging to SHGs and initiated with government support (under the guidance of *Kudumbashree*, with some financial and other support).
2. To examine the performance of micro-enterprises belonging to different sectors (Small scale manufacturing; Services; Animal husbandry; Hand crafts; Food processing).
3. To examine the performance of micro-enterprise that received different levels of subsidy and other support under the government run poverty eradication programme *Kudumbashree*
4. To examine the performance of enterprises based on number of group members, place of operation (rural or urban) and according to the capital invested.
5. To examine the exogenous factors (like marketing tie-ups), and endogenous factors (like division of work among group members,) that may influence the performance of micro-enterprises.

6. To suggest policy measures including the improvements that could be incorporated to ensure promotion of livelihood generating and sustainable micro-enterprises.

#### **Hypotheses of the study:**

- Hypothesis 1: There is a difference in the performance of the enterprise based on where it is situated (rural/ urban)
- Hypothesis 2: There is a difference in the performance of micro-enterprises depending on the sector (Small Scale Manufacturing, Services, Animal Husbandry, Handcrafts, Food processing etc).
- Hypothesis 3: There is a difference in the performance based on Organised Marketing Assistance received.
- Hypothesis 4: There is a difference in the performance of micro-enterprises based on Total Project Cost invested in fixed assets and Subsidy Received
- Hypothesis 5: There is a difference in the performance of micro-enterprises depending on the size of the group starting the micro-enterprise (number of women) and on the demographic characteristics.

## **5 DATA AND METHODOLOGY**

This study is primarily based on data collected from the field from 250 group operated micro-enterprises and is supported by secondary data and statistics from published sources.

The state of Kerala was selected for the study. It was purposively chosen as it was active in the formation and development of SHG activities, through its poverty eradication programme *Kudumbashree*. Under the programme, a number of SHGs were provided with financial and other support for starting individual as well as group operated micro-enterprises for income generating activities. As the aim of the study was to understand the performance of group owned and operated enterprises only such enterprises were selected. The district of Ernakulam was purposively chosen as the study area as it was the most active among the fourteen districts in the formation of group enterprises in both rural and urban areas

**5.1 Sample Design:** The universe of sampling was all group operated micro-enterprises supported by the *Kudumbashree* poverty eradication mission in the district of Ernakulam. The units were chosen using probabilistic method from the list of group enterprises recorded by the district office of the *Kudumbashree* mission. Due care was taken to limit popular micro-enterprise activities (eg .tailoring) being over represented by limiting any activity chosen both in rural and urban areas to not exceed 10 per cent of the total sample size. In all, 250 enterprises were selected (125 each from rural and urban).

**5.2 Reference Period:** Enterprises selected were established at least one year prior to the period of data collection. This was done purposively so that the micro-enterprise was a fully operational unit, which may have started yielding a steady monthly income to the SHG entrepreneurs. The women may also have experienced the challenges of running an enterprise. The research thus selected units that were established after 2000, but not later than June 2009.

**5.3 Data Collection Tools:** An appropriate structured interview schedule was prepared for data collection. Information regarding working of enterprise, member perception about various aspects of the enterprise and related details was collected. In addition detailed field notes were taken to record unique features of activity groups and enterprises.

**5.4 Field data and Period of data collection:** The data was collected from the respondents by visiting them at their micro-enterprises. Data from the 250 enterprises was collected in 2010, during the period between June and December.

**5.5 Data analysis and Reporting:** The micro-enterprises selected were examined according to the activities, area of operation and categorised under broad sectors. Both SPSS software and Excel was used to process and analyse the collected data. Single frequency and correlations were generated; performance influencing factors were grouped under four dimensions, group, enterprise, environment and process. Ten case studies generated out of the in-depth interviews were also used to understand group dynamics and enterprise operation.

### **5.6 Definition of Concepts Used in the Study**

*i) Micro-enterprise* in this study is an enterprise owned, operated and initiated by a group of women not exceeding twenty, with some support from *Kudumbashree*, the poverty eradication programme in Kerala. This research keeps the threshold of initial investment (maximum limit) of a micro-enterprise to be Rs.10, 00, 000 inclusive of bank loan and subsidy. The limit is kept at this amount as *Kudumbashree* in its entrepreneurship development initiative has hand held the development of certain group enterprises where it combined 3-4 activity groups to jointly operate an enterprise.

*ii) SHG Entrepreneur* is the woman who is part of the group (termed as activity group) engaged in operating the micro-enterprise. The 'activity group' is the group formed from an NHG (pseudonym for SHG popularised by *Kudumbashree*) with the objective of starting the micro-enterprise. Throughout, the term SHG entrepreneur is used to denote the NHG entrepreneur.

*iii) Performance Measures* The research looks primarily at the financial performance of the micro-enterprise, which is measured by average monthly turnover (AMT) or the total sales revenue the firm received; the individual income generated to group members (or the average monthly income/member); the additional employment as well as the additional investments made by the enterprise.

*iv) Inactive Enterprise* is one which has not carried out any business activity in the last six months, and the average sales turnover or volume of sales achieved was zero; while an *Active Enterprise* had earned and recorded sales receipts (referred as average monthly turnover or AMT in the research), at least once, during the past six months

## **6 LIMITATIONS OF THE STUDY**

The study cannot be generalised for every state in India, particularly since the state of Kerala is unique in certain aspects. Some of these differences are the level of

education, existing unofficial wage levels etc, which is much higher in comparison to the neighbouring states and the rest of India. Also the sample selected consisted of micro-enterprises that were hand held by one of the highly proactive poverty eradication programmes in the country. It is also possible that some of the measurement variables for performance like sales revenue and average income to members may be underreported.

## **7 MAJOR FINDINGS OF THE STUDY**

The findings of the study are discussed below. Out of all enterprises in the sample, 18 per cent were engaged in small scale manufacturing, 47.6 per cent under services, 6.4 per cent under animal husbandry, 8.0 per cent under hand crafts and 20.0 per cent under food processing.

### **7.1. Status of Micro-Enterprise based on Area, Sector and Enterprise Activity**

Out of the total 250 enterprises in the sample, 69.2 per cent were engaged in the activity at the time of the survey, but remaining (30.8 per cent) were non-operational, or inactive. It was observed that *72.8 per cent in rural and 65.6 per cent in urban areas were active. The proportion of micro-enterprises remaining active differed according to broad sectors, with 62.2 per cent remaining active under Small Scale Manufacturing (SSM), 69.7 per cent under Services, 87.5 per cent under animal husbandry, 72 per cent in food processing and 60 per cent in hand crafts. The proportion of enterprises remaining active also differed according to enterprise activity, with all remaining active in Nutrimix<sup>3</sup> making enterprises, canteens, waste management, mess operations, laundry, oil extraction, dairy and goat rearing.*

More than 75 per cent of enterprises were active in the case of tailoring, data entry, paper products, candles, flour milling and bakery. Comparing active units in rural and urban in paper products, all in urban were active while only 66.7 per cent in rural were operational. But in soaps and detergents, only 28.6 (rural) and 33.3 (urban) per cent were active, while out of all the umbrella making units only 40 per cent were active in the urban while half of such enterprises initiated in the rural areas remained operational. In the case of catering and restaurant services, 60 and 80 per cent remained active in the rural areas, while only 30 and 33.33 per cent respectively, were active in the urban areas. In the case of direct marketing (door-to-door selling), 66.7 per cent in the rural areas were active while only 36.4 per cent of the urban enterprises remained in operation. *Thus in most enterprise activities, except a few like data entry and paper products, proportion of active enterprises were higher in rural than in urban areas.*

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<sup>2</sup> Nutrimix is a food supplement, and provided as take home ration to all 'anganwadi' children below three years of age, with each child being entitled to 3.375kg/month by the government through the ICDS (Integrated Child Development Services). Kudumbashree thought of the project and CFTRI, Mysore, developed the product which replaced the eggs and milk powder, which were the items given as take home ration earlier.



## **7.2. Status of Members based on Area, Sector and Enterprise Activity**

Out of the 2205 members who had entered into the 250 group enterprise activities, only 50.4 per cent remained involved in enterprise activities at the time of the survey. It was noted that a higher proportion of members in rural areas (60.7 per cent) continued with the activity in comparison to the urban (41.8 per cent). The proportion of members continuing with the activity varied according to the sectors, with 58.5 per cent (highest) continuing in food processing, while only 48.8 per cent remained in hand craft based enterprises. Comparing the continuity of members across enterprise activities, it was observed that only in few, the proportion of members continuing was higher than 70 per cent. These were, paper products (70.7), Nutrimix (87.7), waste management (71.4), canteens (74.7) and dairy (86.7). All members engaged in mess operations continued with the activity. Thus, in majority, members had dropped out from the group and left the enterprise activity after a few months, or even after a few years due to various reasons. Some of the common reasons for drop out were alternate employment, health problems, objections from family, activity not being worthwhile, conflict within the group, moving out of the locality, marriage and so on.

## **7.3. Enterprise Group Size**

It was observed that there were two common group sizes, enterprises incepted by 'ten' member groups (more common in urban) and enterprises with 'five' members. Overall, 65.2 per cent of the micro-enterprises had 10 or more members at the time of inception, out of which 58.0 per cent enterprises were initiated by ten member groups, while five member groups established 23.6 per cent of the remaining enterprises. But the group size reduced substantially across activities and region, with greater drop-out in urban areas. It was observed that 67 per cent of the active enterprises had ten or more members at the time of inception while only 23 per cent were being operated by similarly large groups in 2010.

## **7.4. Operational and Marketing Aspects of Micro-Enterprise**

It was noted that 48.4 per cent of micro-enterprises were operating from homes, while 44.0 per cent operated from rented premises. In rural areas, a higher proportion of micro-enterprises operated from homes (64.8 per cent) while 54.4 per cent operated from rented premises. *Overall, 65 per cent of enterprises that became inactive were operating out of homes.* It was also observed that segregation of work was low in 34.4 per cent, moderate in 38.4 per cent and high only in 22.4 per cent of the enterprises. With respect to marketing, *16.4 per cent had tie-ups* which meant that there was some element of assurance of demand for the product.

## **7.5. Financial Aspects (Total Project Cost, Loans and Subsidy) of Micro-Enterprise**

The total project cost ranged in between ₹ 75001 – ₹ 100000 for about 20.8 per cent of enterprises. This level of investment was seen in majority of the rural enterprises. Maximum number (26.4 per cent) of enterprises in the sample had a project cost which ranged in between ₹ 200000 – ₹ 250000. It was also noted that 44.0 per cent of

urban enterprises had its project cost in this range. The total project cost was met primarily through a bank loan which was supplemented by a back end subsidy.

## **7.6. Performance of Micro-Enterprise**

The Performance was studied for all active enterprises.

*7.6.1 Average Monthly Turnover:* The sales receipts for 51.4 per cent of the enterprises ranged between ₹ 10000 - ₹ 49999. Average monthly sales in this range was achieved by 61.5 per cent of rural and 40.2 per cent of urban enterprises. In urban, it was noted that 37.8 per cent had earned higher sales receipts that ranged between Rs.50000-100000, while the same was achieved only by 13.2 per cent of rural micro-enterprises. The turnover ranged widely depending on activities with lower sales receipts achieved by majority of enterprises engaged in hand craft activities like paper bags and bamboo products, while it was higher in those engaged in small scale manufacturing activities like 'Nutrimix' and paper products. Though sales receipts should have some direct relationship with income generated to the entrepreneur in individually operated enterprises, here it was different because of variable group sizes. Due to variable drop-out of members, it was noted that two enterprises in the same activity earning similar sales receipts/turnover could generate different monthly incomes to individual members.

*7.6.2 Growth Categories of Micro-enterprises and Area:* It was seen that 71.7 per cent of all active enterprises had steadily grown as growth in sales was positive in 2008-09 as well as 2009-10. Comparing enterprises in rural and urban areas, 86.8 per cent in rural and 54.9 per cent in urban had achieved steady growth. But it was observed that the monthly sale receipts achieved by rural enterprises in comparison to urban was much smaller. Growth also varied among enterprise activities. It was observed that 60 per cent of enterprises engaged in paper products had declining growth.

*7.6.3 Average Monthly Income earned by Individual group Members:* The income earned by members ranged from as less as ₹ 500/member/ month to as high as ₹ 7500. The members who earned below ₹ 500/month from the enterprise were higher in share, in the case of rural (9.9per cent), while 18.3 per cent of members in urban group enterprises had earned a monthly income that ranged between ₹ 5000 - ₹ 7499.

*7.6.4 Additional Investment* It was observed that 72.8 per cent of the active units had not made any additional investment. 20.8 per cent made total additional investments that was less than ₹ 20000, while 3.2 per cent, made investments that ranged above Rs.100, 000.

## **7.7. Performance of Micro-enterprise: Financial Variables**

It was observed that those enterprises with a larger loan size like Nutrimix units and Data Entry units had also earned higher sales receipts. The monthly turnover was also positively correlated with initial capital ( $r = 0.49$ ,  $p < 0.01$ ) and own capital invested in the enterprise ( $r = 0.403$ ,  $p < 0.01$ ). Many of the group enterprises had also received a subsidy that varied between ₹5000 - ₹ 200000 (the modal value in rural was ₹50000, while in urban it was ₹1250000) primarily was determined by the number of

members and the programme criteria. It was observed that the monthly turnover was positively correlated with the subsidy received ( $r = 0.311$ ,  $p < 0.01$ ), though there were also a number of enterprises that had become inactive in spite of receiving a substantial amount (as high as Rs.125000) as subsidy.

There was a positive correlation between AMI/member and investment related aspects like bank loan ( $r = 0.179$ ,  $p < 0.05$ ), initial capital invested ( $r = 0.174$ ,  $p < 0.01$ ) as well as own capital invested ( $r = 0.204$ ,  $p < 0.01$ ) in the enterprise. Surprisingly, *there was no significant correlation between income generated per member and the subsidy received by the enterprise*. Thus, income earned by members was not dependent on the amount of subsidy received. Since the enterprise is group owned and not individually, demographic variables may not have much of an influence on performance.

### **7.8 Performance Influencing Factors**

The performance influencing factors of group enterprises were studied under four dimensions (group, enterprise, environment and process). Sixteen factors were found to positively influence the performance. These were, equal share of work by group members, segregation of work, the members being engaged 'full-time' in the enterprise, support received from family members, enterprise being operated out of non-home based locations, broad sector of enterprise activity (those under animal husbandry, services and food processing performed better), daily accounting of expenses, better management of working capital, at least one-fourth of the project cost being utilised for fixed assets, bank loan being more than 45 per cent of project cost (which meant the enterprise may have a higher project cost or the group was confident enough to take bigger loans to meet capital requirements), enterprise had operated for more than three years (which also indicated that it had repaid its loan completely), the nature of product or service satisfied an unmet demand in the area, it had received organised (regular tie-up for receiving orders) and unorganised (from friends and relatives who helped in receiving more sales orders) marketing support, made regular savings for meeting enterprise requirements and also carried out additional investments.

From the comparison of active and inactive enterprises, it was observed that inactive enterprises had lower bank loans, the capital invested by the group (own capital or beneficiary share) was lower, but subsidy proportion comprising the total project cost was much higher, with many receiving the maximum possible subsidy under various micro-enterprise development programmes.

Group size was found to influence performance. It was observed that 71.4 per cent of enterprises operated by groups with 2-4 members had achieved the two performance criteria with 60 per cent or more members continuing in the activity. Bigger group sizes suffered substantial drop-out, but 94.4 per cent of enterprises incepted by groups with more than ten members were operational, with 55.6 per cent achieving both sales and the income criteria of performance. One reason may be that some of these enterprises were having tie-ups (as in three Nutrimix units, a coir products unit, a curry powder unit), or had developed its marketing well such that it had a regular client base in the locality (a tailoring and traditional snacks unit), or had satisfied an unmet demand (as in the case of waste management units). In the case of five and ten

member group sizes (common sizes in the sample as well as the population due to programme specifications), 32.2 and 31.1 per cent of enterprises had achieved the sales and income criteria with at least 60 per cent of members remaining active.

It was observed that group size was determined by programme specifications, the consideration primarily being to attain the size that helped to avail maximum subsidy. In the sample, the maximum possible subsidy amount was availed by enterprises which had ten members. As was observed in the sample enterprises, though 65.2 per cent of enterprises began with ten or more group members, just 17.6 enterprises were being operated by similar sized groups at the time of the survey. With reduced numbers, the groups continued to operate the enterprises efficiently. Though there may be many reasons for the formation of big groups, one major motivation behind it may be to obtain a larger subsidy amount. All members in such groups may not be equally inclined towards running the enterprise.

Both selection of 'enterprise activity' as well that of the 'members' is extremely important in group operated micro-enterprises. Both, influence the performance, as well as the survival (or being active) of the enterprise. If incorrect choice of enterprise activity or adverse selection of members happens at the formation stage, the enterprise may soon turn inactive. Size of the group should match the enterprise activity taken up, which may ensure a decent income to all members, that may keep the members active and the enterprise sustainable in the long run.

### **7.9. Causes of Micro-Enterprises becoming Inactive**

Some of the common reasons cited by the members for stopping the enterprise activity are

- Lack of demand as there were too many competitors
- Water shortage in the area due to which operations became difficult (those in restaurants and catering)
- Income obtained was very low so members dropped out
- Money got diverted for other uses, in two cases so there was no working capital left
- Drop out of members and group size became too small to continue operations
- Infighting within the group due to one or two members swindling the money
- Member conflict due to unequal participation in work by all members

## **8 CONCLUSIONS AND POLICY IMPLICATIONS**

The success of micro-enterprises and economic activities of the poor depends greatly on the empowering environment that the local and state governments can ensure or provide. One of the strategies adopted by *Kudumbashree* for promotion of successful micro-enterprises was through the conversion of social needs into business opportunities. Enterprises were engaged in diverse activities like solid waste management, which has helped to improve sanitation in the urban area; digitisation of government records; supply of fresh milk; production of food supplements and so on. Many of these enterprises engaged in the above activities were more successful than others engaged in micro-enterprise activities like operation of provision stores, restaurants, etc.

Group owned and operated enterprises can be effective in inducing women who may otherwise be reluctant to enter into self employment activity. The ease of availing bank loans as well as subsidy may help during the initial stage of the enterprise, but in the long run, the activity selected, its suitability to the group and the locality, marketing support received etc may be more important. The functioning of the group also determines the performance, with those operating with some levels of segregation of work, as well as members considering the enterprise as their full-time work performing better in comparison. Also capital invested in fixed assets as well as regular accounting of expenses may also influence enterprise performance.

It was observed that correct choice of activity was one of the most important aspects that determined the performance of the enterprise. It is important to study the demand-supply gap in the area before choosing a particular activity. It was observed that certain common activities like 'catering' was being chosen by groups without any consideration of the demand-supply situation in the locality. This resulted in intense competition and finally closure of some enterprises. There are number of innovative enterprise activities that can be chosen by groups. For example, there could be group-based house-keeping or care giving services which are found to be in huge shortage, not only in the bigger cities of the state but even in smaller towns of Kerala. In the survey area, and all over Kerala, there is huge demand-supply gap for human resources, particularly in taking care of aged, infants as well as the entire house hold. Group enterprises can be engaged in providing these services in an organised manner

Group entrepreneurship is an effective means to achieve higher participation of women in productive activities. It is important to pay adequate attention to certain aspects for better success of such enterprises. The research brought out some policy suggestions.

### **8.1 Policy Recommendations**

Most of the government programmes targeting groups clearly advocate that the level of subsidy is decided by the number of people initiating the micro-entrepreneurial activity, subject to a threshold limit. Since programmes also has targets every year (that is support the formation of certain number of micro enterprises or disburse millions of rupees as subsidies), officials overlook the suitability of an activity to members, group size, as well as area, and other important aspects that may influence the continuity of the enterprise as well as its capability to provide a decent or sustainable income to the members. Hence at times many of the enterprises that are formed with subsidy support have been found to be unsuitable and incapable of sustaining over time. *Kudumbashree* has realised the problem of moral hazard, and in recent years has added clauses like non-withdrawal of subsidy amount from bank accounts until the repayment of bank loans as well as existence of groups in full quorum for a minimum number of years.

The research makes some specific policy recommendations for increasing the effectiveness of such interventions aimed at promoting group enterprises

1. *Subsidy disbursement in group enterprises should not be solely dependent on 'Number' of members: It should be disbursed differently* Maximum subsidy amount provided to the group should have an upper cap or limit, which could be based on the project cost and not on the 'number' of group members alone. At present, most

government programmes that emphasises on group based micro-enterprise development provide subsidies based on the 'number' of members. Instead, subsidy may be disbursed as two components. The first should be given to the group as a back-end subsidy, to meet part of the project cost and the amount should be based on the fixed capital requirement.

The second component of the subsidy should be used for market development of the product. The subsidy of several groups in similar activities may be pooled together and used to develop a joint marketing facility like development of sales kiosks in urban locations. This would be particularly useful if the enterprise do not have enough market for its product or service in the immediate locality. This kind of support may be particularly useful in the case of products like hand crafted products like artificial flower bouquets and jewellery, soaps, paper bags, as well as organic agricultural produce like vegetables, honey etc, all of which are suitable for group based micro-enterprises. Depending on the fixed capital requirement of the project, the amount provided to the group can vary from 20 per cent to a maximum of 95 per cent of the eligible subsidy amount. The research thus does not recommend that subsidy to groups be reduced, but that entire subsidy amount should be disbursed differently so as to bring about better or judicious utilisation as well as long lasting effects.

2. *Selection of Members in the Group* Formation of an 'activity group' from the self help groups should ensure 'like-minded' people coming together. It is important to ensure at least a couple of capable women with strong leadership qualities to be part of every activity group which forms the group enterprise. This may reduce group conflict to some extent. The functionaries of the programme agency should be involved in the selection.

3. *Enterprise activity should match the group size* The enterprise should have the capability to support the group members or generate sizable sale to generate a decent income to individuals in the group.

4. *Discourage Mushrooming of similar activity in the same locality* Do not allow groups to go ahead with project proposals with similar enterprise ideas/ activities that already exist in abundance in the area. This would prevent it from entering an already saturated market where it would not be able to generate sufficient demand for its product or service.

5. *Develop enterprises based on requirement or need in the Locality* Identification of demand-supply gaps in various spheres of economic activity that would be suitable to women should be first made. This would help in making the correct 'choice of enterprise activity'. Careful selection of enterprise activity may help to reduce failures to some extent.

6. *Enterprise should strive to offer Innovative products or service* Innovative and unique service or product would attract regular clients/buyers. It is also important to offer product or services that are not in competition with bigger and financially stronger competitors

7. *Enterprises with big group size should segregate responsibilities among members* There should be certain amount of work segregation in bigger groups with responsibilities allocated to members based on interest and capability. Some members

could become more involved with the marketing while others engage in production. There may also be incentives given to those who are involved in selling as without it there is no scope for carrying out the production activity.

8. *Efforts should be made for tie-ups with big firms* Micro-enterprises engaged in the production of goods, ranging from umbrellas to pickles find it difficult to market their produce. Tie-ups with bigger firms having better marketing networks may be a solution. The arrangement may be mutually beneficial if proper attention is paid at the time making the contract which could be carried out with the help of third-party, who can be either be independent consultants or experts.

Subsidies are needed to incentivise the poor and turn them in to entrepreneurs capable of venturing and continuing in a micro-enterprise activity. But governance should be the corner stone in not only selection of groups with respect to eligibility criteria of the members, but also the selection of the enterprise activity, its viability and suitability to members undertaking the activity as well as the area. This research suggest that subsidy support for enterprises should be determined based on aspects like fixed capital requirement, nature of the enterprise activity as well as its capability to support the group size, rather than eligibility being solely determined by the 'number' of members alone. Also members should receive training in managing the enterprise, group dynamics and also support and hand holding with respect to selection of suitable enterprise activity, marketing etc which are essential for the sustainability of the enterprise in the long run.

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