

Summary

PERFORMANCE OF MICRO-ENTERPRISES OF SHG ENTREPRENEURS

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INTRODUCTION:

Equitable and inclusive growth would require employment generation, which may ensure sustainable livelihoods. It is 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. In the case of the enterprise being initiated by a woman it may be almost impossible. The advent of self help groups (SHGs), microfinance and micro-credit brought about a change, bringing greater inclusion of the poor, particularly the women in to 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. 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.

A variety of government-sponsored programmes, including the recent *Prime Minister's Employment Generation Programme* (PMEGP), as well as those like the *Integrated Rural Development Programme* (IRDP), *Swarnajayanti Gram Swarozgar Yojana* (SGSY), *Swarna Jayanti Shahari Rozgar Yojana* (SJSRY) were undertaken with the objective of generating employment opportunities by facilitating self-employment and entrepreneurship in the rural and urban areas. 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. The growth of SHGs in India have facilitated the entry of women in to self-employment through such group owned and operated enterprises.

Formal employment opportunities were always scarce in the state of Kerala, which had the highest rate of unemployment and the lowest work participation rates of women in labour force in India. The Eleventh five year plan, with the goal of increasing employment opportunities envisaged that 30000 group enterprises would be set up by *Kudumbashree*¹ and 50,000 by the local self government (LSG) during the plan period. Under *Kudumbashree* every family below the poverty line was organised into a Neighbourhood Group or NHG (SHG is popularly known as the NHG) at the grass roots level, which is the lowest tier. The programme supported the formation of 'activity groups', which would operate a group enterprise, from NHGs that had been in existence for a minimum period of six months. This was done so that only those members from the NHG who are 'interested' and 'willing to take the risk' of running an enterprise became involved in the formation of the enterprise. Support in terms of training, consultancy and subsidy was also provided by the *Kudumbashree* mission towards micro-enterprise development, particularly for group operated micro-enterprises².

¹ The *Kudumbashree* (means 'prosperity of the family' in Malayalam) was an anti-poverty programme that was initiated in 1998 for bringing about equal economic opportunities to the poor womenfolk both in rural and urban Kerala.

² Though there are different definitions on micro-enterprises, *Kudumbashree* defines group operated micro-enterprises as, one with an investment ranging from ₹ 5,000 to ₹ 2,50,000; having a potential to generate a net income of at least ₹ 1,500 per member in a month; with a

RATIONALE OF RESEARCH:

Entrepreneurial activity contributes substantially to socio-economic development, and planners have initiated several interventions to promote micro-enterprises that would ensure livelihoods. In order to survive and remain operational in the long run, these micro-enterprises need to ensure sustainable livelihoods. In many states, governmental and non-governmental organisations (NGOs) are developing and promoting self help groups (SHGs) for microfinance and micro-entrepreneurship facilitation to achieve the goal of poverty eradication through employment generation. The success, stability and sustainability of such enterprises have a significant impact on the confidence of other members belonging to the same SHG as well as different SHGs. Failure of one enterprise impacts or acts as a deterrent to other members who may have planned on starting other micro ventures.

A micro-enterprise, the formation of which is facilitated through microfinance, and run by a group of women belonging to SHGs, may behave differently from mainstream small business enterprises. The study was undertaken to understand the performance of such micro-enterprises as there is a lack of relevant research about such group run enterprises.

DATA AND METHODOLOGY:

The universe of sampling was all group operated micro-enterprises supported by the *Kudumbashree* poverty eradication mission in the district of Ernakulam in Kerala state. The micro-enterprises were chosen using probabilistic method but restricting any particular activity to 10 per cent (or lower) of the total sample size. In all, two hundred and fifty enterprises were selected (all were established after 2000, but not later than June 2009) with equal representation from rural and urban areas. All had received loan as well as some other support like subsidy, and in many cases both.

The measurement of performance of the enterprise was based on continuity of the enterprise itself (whether it remained active), positive sales revenue growth in the last two years and income generated to the individual member being above ₹1500/month (as envisaged by the programme). Many studies consider continuity as a dimension of success since there are substantial difficulties and challenges encountered by new ventures or enterprises, from characteristic uncertainty to lack of resources. This may be highly relevant 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) influence both the future and potential of the enterprise. In order to understand the factors influencing the performance of group operated enterprises, this research considered certain variables and grouped them broadly under four dimensions namely group (members in activity group operating the enterprise); enterprise; environment and the process.

minimum annual turnover ranging between ₹ 1,00,000 to ₹ 10,00,000; and those which are fully owned, managed and operated by members themselves, preferably by women below poverty line families.

MAJOR FINDINGS OF THE STUDY:

The findings of the study are discussed below. 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 some (30.8 per cent) had become non-operational, or inactive. Comparing the proportion of enterprises remaining active³ and the area of operation, 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. In most enterprise activities, except in the case of activities like data entry the proportion of active enterprises were higher in rural than in urban areas.*

There was substantial reduction in group size over the years. Out of the 2205 members who had entered in to 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). Members had dropped out from the group and left the enterprise activity after a few months or even after a few years due to reasons like alternate employment, health problems, objections from family, conflict, marriage and so on. It was noted that 48.4 per cent of micro-enterprises were operating from homes, while 44.0 per cent operated from rented premises. Overall, 65 per cent of enterprises that became inactive were operating out of homes. 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.

The total project cost was in general higher for urban enterprises (majority had ₹200000 - 250000) than those in rural (majority had project cost ranging between ₹ 75001 – 100000) and was primarily met through bank loan which was supplemented by a back end subsidy. The proportion of the total project cost invested in fixed assets was below 10 per cent in 22.4 per cent of all enterprises in the sample, and ranged between 10- 30 per cent in the case of 35.2 per cent of all micro-enterprises.

Performance of Micro-Enterprise: Performance was studied for all active enterprises.

Average Monthly Turnover: The sales receipts for 51.4 per cent of the enterprises ranged between ₹10000-49999, which was the sales 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 sales receipts that ranged in between ₹ 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.

Growth in Sales Revenue and Area: It was seen that 71.7 per cent of all active enterprises had exhibited positive sales growth 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 the monthly sale receipts earned by rural enterprises in comparison to urban were much smaller.

Average Monthly Income earned by Individual group Members: The income earned by members ranged from less than ₹ 500/member to above ₹7500/month. Members who earned ₹ 500/month or below from the enterprise were higher in the rural enterprises (9.9 per cent) while it was observed that 18.3 per cent of members in urban group enterprises had earned a monthly income that ranged between ₹ 5000-7499.

Financial Variables and Performance: it was observed that enterprises with a larger loan size had also earned higher sales receipts. The monthly turnover was positively correlated with initial capital ($r = 0.49, p < 0.01$) and own capital invested in the enterprise ($r = 0.403, p < 0.01$). Subsidy was received by 94.2 per cent of the active enterprises. 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 ₹ 125000) as subsidy. Positive correlation was also observed between individual member income 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 to individual member and the subsidy received by the enterprise.*

Performance 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 or regular 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, as 71.4 per cent of enterprises operated by groups with 2-4 members had achieved both the performance criteria (positive sales revenue growth in the past two years and generation of profit) with 60 per cent or more members continuing in the activity. Bigger group sizes suffered substantial drop-out. Surprisingly, 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.

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. Both selection of 'enterprise activity' as well that of the 'members' is extremely important and affect the performance of group operated micro-enterprises. 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.

CONCLUSIONS AND BROAD POLICY IMPLICATIONS:

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 measures

- **Subsidy disbursement in group enterprises should have lower emphasis on 'Number' of members:** Maximum subsidy amount provided to the group should have an upper cap or limit, which would be based on the project cost and not on the 'number' of group members alone. At present most government programmes which support group based micro-enterprise development provide subsidies based on the 'number' of members in the group. 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 may be used for market development of the product.
- **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.

- **Develop enterprises based on requirement or need felt 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.
- **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.
- **Enterprise should offer Innovative products or service:** innovative and unique service or product may help to obtain regular clients/buyers. It is also important to offer product or services that are not in competition with bigger and financially stronger competitors. 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 can be group-based house-keeping services which are found to be in huge shortage in not only in the bigger cities of the state but even in smaller towns of Kerala.
- **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.
- **Enterprises with big group size should segregate responsibilities among members:** There should be some kind of work segregation in bigger groups with responsibilities allocated to members based on interest and capability. Some members could be more involved with the marketing and others in production. There may also be incentives given to those who are involved in selling as without sales there is no scope for carrying out the production activity.

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. Members should also receive training in managing the enterprise and group; Formal or informal 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 should also be a major component in such programmes.