

# Financial Problems Faced by Small Scale Entrepreneurs in SIDCO Industrial Estates

(Special Reference To Madurai & Virudhunagar Districts)

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## KEY WORDS:

Working Capital,  
Financial Problems,  
Sources of Finance.

**Abstract:** In India during the year 2006-2007 the SSI provided employment to 312.5 lakh persons. Tamil Nadu a southern state in India has contributed much to the growth of Small Scale Industries. There were 420 Small Scale Units in Tamil Nadu in the year 2001-02 which further increased to 449 in 2002-03 and to 490 in 2004-05. There is always an increasing trend in the production also.

Finance occupies an important place in the management of a small- scale enterprise. It is a key factor in determining the success of an industrial concern. So the Author has made an attempt to know the financial problems faced by the Small Scale Entrepreneurs. The problems of finance have been studied under the following variables viz. Sources of finance, Problems faced in raising money for business, Difficulty in meeting the day to day expenses of the concern, Methods of solving day to day expense problems.

## Introduction:

In a country like India where diversified classes of people dwell and many remain unemployed and underemployed, the small scale sector has emerged as a major source of employment, by creating more and more employment opportunities per unit of Capital employed. SSI Sector provides employment opportunities to 71 lakhs persons in the 1980-81. It increased to 240.9 lakhs persons in the year 2000-2001. Further it increased to 287.6 lakhs persons and 299.91 lakhs persons in the year 2004-2005 and 2005-06 respectively. During the year 2006-2007 the SSI provided employment to 312.5 lakh persons.

The Number of units Registered under SSI /MSME were 1272 units in Madurai District and they have generated employment to 6166 persons in the Year 2006-07 and further it is increased to 1384 SSI/MSME units which generated employment to 10,237 persons in the Year 2007-08.

Here in this article the Authors analyse "the financial problems faced by the small scale entrepreneurs in the SIDCO Industrial Estates of Madurai and Virudhunagar Districts" The Authors have collected data from the respondents directly through the structured questionnaire.

## Review of Literature:

Suri and Sorupria studied "Psychological Factors affecting entrepreneurs- Some findings" using the data from a sample of 80 entrepreneurs with an experience of two years or more in Ahmedabad city. Their findings show that migrant entrepreneurs coming from nuclear families experience greater stress than the

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local entrepreneurs coming from joint families.

Radha Dhandapani in her research study entitled "Entrepreneurial Success- A study conducted in Small Scale Industries in Madurai District" observed that out of 17 successful entrepreneurs 58.82% have stated that shortage of working capital as their No.1 Problem. 17.66% said high interest rate is their prime problem.11.76% pointed out that shortage of fixed capital as their No.1 Problem. Among the 21 unsuccessful entrepreneurs 42.86 have stated that shortage of working capital as their No.1 Problem. 23.81% said high interest rate is their prime problem.14.29% pointed out that shortage of fixed capital as their No.1 Problem.

## Scope of the Study:

The study covers the small entrepreneurs who run small scale industries in the Industrial estates of Madurai and Virudhunagar Districts. The Financial problems faced by the small scale entrepreneurs in the SIDCO Industrial Estates of these districts are analysed.

## Objectives of the Study:

The objective of the study is to analyse the financial problems faced by the small scale entrepreneurs in the SIDCO Industrial estates of Madurai and Virudhunagar Districts.

## Period of Study:

The field work has been conducted from the month of May 2009 to October 2009 in order to collect primary data relating to the problems of small scale entrepreneurs in SIDCO Industrial Estate of Madurai and Virudhunagar Districts.

## Methodology:

In this study, descriptive research design was adopted. The Authors have collected both primary and secondary data. Primary data was collected directly from the small scale entrepreneurs

with the help of a structured questionnaire. Personal interviewing method was adopted to collect the primary data. The secondary data were collected from the membership directory of Kappalur, Pudur, Virudhunagar and Rajapalayam Industrialists Association, the Manual of Tamil Nadu Small Industries Development Corporation Limited, the Website of Tamil Nadu Small Industries Development Corporation limited, etc.

**Construction of Questionnaire and Pre – test:**

Questionnaire for this study was constructed by the authors themselves. It was pre-tested with 20 small scale entrepreneurs. It was modified on the basis of pre – test.

**Sampling Design:**

The universe of the Study is based on the lists of Units developed by the National Informatics Centre, TNSU, Chennai and the Membership Directories of the Kappalur, Pudur, Virudhunagar and Rajapalayam Industrial Associations. 200 small scale entrepreneurs have been taken as sample by the application of stratified random sampling technique.

Stratified Random Sampling was adopted dividing the whole SIDCO Industrial Estates of Madurai and Virudhunagar Districts into Industrial Estates (Strata) and then randomly units were chosen and shown in table 1

The respondents were the entrepreneurs who run small-scale industrial units in SIDCO Industrial Estate, in Madurai and Virudhunagar Districts. The authors used stratified random sampling technique to collect information from the small-scale entrepreneurs in Madurai and Virudhunagar Districts. The SIDCO Industrial Estates were considered as strata. The sample units

**Table 1 : Showing Sampling Units Selection :**

S.No	District	Industrial Estate	Population	Sample
1	Madurai	Pudur	169	115
2		Kappalur	74	45
3	Virudhunagar	Virudhunagar	36	25
4		Rajapalayam	20	15
		Total	299	200

**Table 2 : Sources of Finance**

S.N	Industrial Estate	Kappalur		Pudur		Madurai		Virudhunagar		Rajapalayam		Virudhunagar		Grand Total	
		No.of Units	% of Units	No.of Units	% of Units	No.of Units	% of Units	No.of Units	% of Units	No.of Units	% of Units	No.of Units	% of Units	No.of Units	% of Units
1	Own Capital Fully	0	0	0	0	0	0	0	0	0	0	0	0	0	0
2	Borrowing from friends & relatives	0	0	0	0	0	0	0	0	8	53	8	20	8	4
3	Loans from banks	20	17	18	40	38	24	8	32	2	13	10	25	48	24

were 200 and the sample size was 67%.

**Data Collection and Processing:**

Percentage analyses, level of agreement technique, ranking method were used as tools for data analysis.

**Framework of Analysis and Tools:**

Classification tables were used to analyse the financial problems faced by the small scale entrepreneurs and percentage analysis also for comparison purpose.

**Financial Problems:**

Finance is the life blood of an enterprise. It is one of the important pre requisites to start an enterprise. In fact, it is availability finance that facilitates an entrepreneur to bring together land, labour, machinery and raw material to combine them in order to produce goods. So an attempt has been made by the authors to know the financial problems faced by the Small Scale Entrepreneurs.

The problems of finance have been studied under four variables. They are:

1. Source of finance
2. Problems faced in raising money for business.
3. Difficulty in meeting the day to day expenses of the concern.
4. Methods of solving day to day expense problems.

The data relating to the above variables have been collected from the respondents and presented in the tables which are given in this Article.

**Sources of Finance:**

Financing an enterprise — whether large or small — is a crucial element for success in business. An entrepreneur mobilises funds from different sources. So the authors have made an attempt to know the sources of finance of Small Scale Entrepreneurs.

The data relating to this variable i.e. sources of finance have been collected and presented in table 2.

S.N	Industrial Estate	Kappalur		Pudur		Madurai		Virudhunagar		Rajapalayam		Virudhunagar		Grand Total	
		Sources	No.of Units	% of Units	No.of Units	% of Units	No.of Units	% of Units	No.of Units	% of Units	No.of Units	% of Units	No.of Units	% of Units	No.of Units
4	Loan for Financial Institutions	0	0	7	16	7	4	6	24	0	0	6	15	13	7
5	Own Capital with borrowing from others	20	17	0	0	20	13	0	0	4	27	4	10	24	12
6	Government aid	0	0	0	0	0	0	0	0	0	0	0	0	0	0
7	Own capital with borrowings from friends & relatives	75	65	10	22	85	53	10	40	1	7	11	28	96	48
8	Own capital with loans from financial Institutions	0	0	0	0	0	0	0	0	0	0	0	0	0	0
9	Own capital with loans from banks	0	0	0	0	0	0	0	0	0	0	0	0	0	0
10	Loans from Banks & financial institutions	0	0	10	22	10	6	1	4	0	0	1	3	11	6
	Total	115	100	45	100	160	100	25	100	15	100	40	100	200	100

Table 2 indicates that

In Kappalur majority of the respondents - 65% have raised finance through own capital and borrowings from friends and relatives.

In Pudur majority of the respondents - 40% have raised finance through loan from banks.

In Virudhunagar majority of the respondents - 40% have raised finance own capital and borrowings from friends and relatives.

In Rajapalayam majority of the Respondents - 53% have raised finance from borrowings from friends and relatives.

So in Madurai and Virudhunagar districts taken as a whole 48% have availed loans from friends and relatives and also own capital. 24% have availed loans from banks. 12% have own capital and borrowings from others. So it is concluded that most of the respondents have raised money for their business from own capital with borrowings from friends and relatives hile 53% resorted to own capital with borrowings from friends and relatives in Madurai district only 28% depended on this in Virudhunagar District.

**Table 3 : Problems Faced in Raising Money for Business:**

Industrial Estate	Problem	Non availability of Funds	Lack of security to avail loans	High rate of interest	Delay in getting the loan amount	More formalities	More valuables securities	Total
Kappalur	No.of Units	10	5	14	4	40	42	115
	% of Units	9	4	12	3	35	37	100
Pudur	No.of Units	0	4	28	0	10	3	45
	% of Units	0	9	62	0	22	7	100
Madurai District	No.of Units	10	9	42	4	50	45	160
	% of Units	6	6	26	3	31	28	100
Virudhunagar	No.of Units	0	6	8	5	1	5	25
	% of Units	0	24	32	20	4	20	100
Rajapalayam	No.of Units	0	4	5	2	4	0	15
	% of Units	0	27	33	13	27	0	100
virudhunagar	No.of Units	0	10	13	7	5	5	40
	% of Units	0	25	33	18	13	13	100
GRAND Total	No.of Units	10	19	55	11	55	50	200
	% of Units	5	10	28	6	28	25	100

### Problems Faced in Raising Money for Business:

Lack of adequate finance and credit has always been a major problem of small scale industrial units in India. So the authors have made an attempt to know the problems faced by the Small Scale Entrepreneurs in raising money for their business.

The data has been collected and presented in the table 3 indicates that in Kappalur the major problem faced by most of the respondents i.e. 37% in raising finance is offering more valuable securities.

In Pudur majority of the respondents i.e. 62% have felt high rate of interest as major problem in raising finance.

In Virudhunagar most of the respondents i.e. 32% felt high rate of interest as major problem in raising finance.

In Rajapalayam most of the respondents i.e. 33% found high rate of interest as major problem in raising finance.

So in Madurai and Virudhunagar districts taken as a whole the major problem faced is by the respondents i.e. 28% is more formalities and high rate of interest.

25% have felt that more valuable securities are a major problem in raising money for the business. So it is concluded that the major

problem faced by most of the respondents in raising money is more formalities and high rate of interest.

Comparing these two districts - majority of the Madurai District respondents i.e. 31% have said that the major problem in raising money is more formalities but as against this the majority of the respondents in Virudhunagar District i.e. 33% have said that the major problem is high rate of interest.

### Difficulty in Meeting the Day-to-Day Expenses:

An entrepreneur requires two types of finance for running his enterprise. They are fixed capital and working capital. Fixed capital is used to buy fixed assets and working capital is used to run the day to day expense of the business.

In the present study, the authors have made an attempt to know how many Respondents have faced difficulty in meeting the day to day expenses of the concern. day-to-day expenses include payment of wages/salaries, rent, electricity bill and the like. The data relating to this variable i.e. Difficulty in meeting the day-to-day expenses, have been collected and presented in table 4.



**Table 4:** Difficulty in Meeting Day to Day Expenses.

S.N	Industrial Estate	Kappalur		Pudur		Madurai		Virudhunagar		Rajapalayam		Virudhunagar		Grand Total	
		No.of Units	% of Units	No.of Units	% of Units	No.of Units	% of Units	No.of Units	% of Units	No.of Units	% of Units	No.of Units	% of Units	No.of Units	% of Units
	Response														
	Yes	84	73	34	76	118	74	18	72	10	67	28	70	146	73
	No	31	27	11	24	42	26	7	28	5	33	12	30	54	27
	Total	115	100	45	100	160	100	25	100	15	100	40	100	200	100

Table 4 indicates that

In Kappalur most of the respondents i.e 73% has faced difficulty in meeting the day to day expenses.

In Pudur most of the respondents i.e 76% has faced difficulty in meeting the day to day expenses.

In Virudhunagar most of the respondents i.e 72% has faced difficulty in meeting the day to day expenses.

In Rajapalayam most of the respondents i.e 67% has faced difficulty in meeting the day to day expenses.

So in Madurai and Virudhunagar districts as a whole most of the respondents i.e. 73% have faced difficulty in meeting the day to day expenses. 27% have not faced difficulty in meeting the

day-to-day expenses. So it is concluded that most of the Respondents have faced difficulty in meeting the day-to-day expenses.

Further, the methods of solving day-to-day expenses problems are studied and discussed.

#### Methods of solving day-to-day expenses problems:

In the present study, the Authors have made an attempt to know how the day-to-day expenses problems have been solved by the Small Scale Entrepreneurs.

73% of the Respondents who said they have a problem regarding meeting the day to day expenses have offered solutions to overcome this problem.

The data has been collected and presented in the table 5

**Table 5 :** Methods of Solving Day-to-Day Expenses Problems

S.N	Industrial Estate	Kappalur		Pudur		Madurai		Virudhunagar		Rajapalayam		Virudhunagar		Grand Total	
		No.of Units	% of Units	No.of Units	% of Units	No.of Units	% of Units	No.of Units	% of Units	No.of Units	% of Units	No.of Units	% of Units	No.of Units	% of Units
1	By availing OD from Banks	40	48	22	65	62	53	5	28	3	30	8	29	70	48
2	By availing short term loans	34	40	12	35	46	39	10	56	6	60	16	57	62	42
3	By borrowings from friends & relatives	5	6	0	0	5	4	0	0	0	0	0	0	5	3
4	By borrowings from private money lenders	5	6	0	0	5	4	3	17	1	10	4	14	9	6
5	By availing cash credit from banks	0	0	0	0	0	0	0	0	0	0	0	0	0	0
6	Others	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	Total	84	100	34	100	118	100	18	100	10	100	28	100	146	100

**Table 6 : Comparison of Financial Performance and Problems**

S.No	Functional Area	Criteria	Madurai (Units)	Virudhunagar (Units)
1	Sources of Finance	Own capital and borrowings from friends and relatives	85	11
2	Major financial problem faced in raising money	More formalities & high rate of interest	50	13
3	Difficulty in meeting the day to day expense	Working capital	118	28
4	Method of solving day to day to day expense	By availing o/d and short term loan	62	16

Table 5 indicates that

In Kappalur most of the respondents i.e 48% solved their day to day expense problem by availing Overdraft from banks.

In Pudur most of the respondents i.e 65% solved their day to day expense problem by availing OD from banks.

In Virudhunagar most of the respondents i.e 56% solved their day to day expense problem by availing short term loans.

In Rajapalayam most of the respondents i.e 60% solved their day to day expense problem by availing short term loans.

So in Madurai and Virudhunagar districts as a whole most of the Respondents 48% have solved their day-to-day expenses problems by availing O/D from banks. 42% have solved it by availing short term loans. 6% have solved by borrowings from private money lenders. None suggest cash credit facility (working capital loan) as their solution to solve this problem. So it is concluded that majority of the entrepreneurs depend on bank OD and short term loans for meeting the working capital requirements of the business.

**Financial Performance and Problems:**

The finance performance and problems of sample units of Madurai and Virudhunagar have been compared and shown in the table 6

Table 6 reveals that the majority of the samples units (85 units of Madurai and 11 units of Virudhunagar) have raised the finance by means of own capital and borrowings from friends and relatives.

It is evident from the table 5 that the main finance problem faced by the majority of sample units is working capital problem (118 units of Madurai and 28 units of Virudhunagar and raising the finance due to more formalities (50 units of Madurai and 13 units of Virudhunagar)

**Discussion and Implication:**

Radha Dhandapani in her research study entitled "Entrepreneurial Success- A study conducted in Small Scale Industries in Madurai District" observed that out of 17 successful entrepreneurs 58.82% have stated that shortage of working capital as their No.1

Problem. 17.66% said high interest rate is their prime problem.11.76% pointed out that shortage of fixed capital as their No.1 Problem. Among the 21 unsuccessful entrepreneurs 42.86 have stated that shortage of working capital as their No.1 Problem. 23.81% said high interest rate is their prime problem.14.29% pointed out that shortage of fixed capital as their No.1 Problem. As same as this finding in our study also the financial problems have been studied in detail and it is found that majority of the entrepreneurs have felt the difficulty in meeting the day to day expenses.

**Conclusion:**

The entrepreneurs of the SIDCO Industrial estates of Madurai and Virudhunagar districts have various financial problems. This has been studied under various variables . it has been analysed using percentage analysis and major problems traced out. The two districts show varied trend and therefore differs from one another.

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