

**RURAL ENTREPRENEURSHIP: A STUDY ON INTERNAL ENVIRONMENTAL FACTORS INFLUENCING THE BUSINESS PERFORMANCE OF RURAL MICRO, SMALL AND MEDIUM ENTERPRISES (MSMES) IN COIMBATORE DISTRICT**

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## **RURAL ENTREPRENEURSHIP: A STUDY ON INTERNAL ENVIRONMENTAL FACTORS INFLUENCING THE BUSINESS PERFORMANCE OF RURAL MICRO, SMALL AND MEDIUM ENTERPRISES (MSMES) IN COIMBATORE DISTRICT**

### **Abstract**

The main aim of this study is to assess the internal factors influencing the business performance of rural Micro, Small and Medium Manufacturing Enterprises (MSMEs) in Coimbatore District. A sample of 370 rural MSME manufacturing enterprises registered under District Industries Centre (DIC) and has filed Udyog Aadhar Memorandum (UAM) have been selected by using stratified random sampling technique. A structured interview schedule has been designed to collect the primary data from rural entrepreneurs. In this study, ANOVA test has been applied to find whether production, finance, marketing, human resource and business performance significantly differ among firm characteristics. The ANOVA result has revealed that size of business (Micro, Small and Medium enterprises) has varied significantly with all dependent variables at 5 per cent or 1 per cent level of significance. Then, a Structural Equation Model has proposed to examine the effect of production, finance, marketing, human resource towards the business performance of rural Micro, Small and Medium Manufacturing Enterprises (MSMEs). Further, the result has implied that production, finance and marketing have significantly influenced the business performance of rural MSMEs'. While, the human resource factor has not significantly influenced the business performance of rural MSMEs' at 5 per cent level of significance. Therefore, based on the proposed model, it is revealed that finance and marketing factors have a direct significant positive influence towards business performance and production factor has a direct significant negative effect towards business performance satisfaction.

**Keywords:** Production, Finance, Marketing, Human Resource and Business Performance.

### **Introduction**

#### ***“India lives in its villages”***

The Indian rural economy is predominantly agriculture based. The economic development of our country largely depends on the development of rural areas and the standard of living of its rural mass. The interplay between rural development and entrepreneurship overcomes the constraints of primary industry, mainly agriculture, which is the principal source of income in rural areas. Rural populations are highly dependent on agricultural production, although its performance is volatile due to natural calamities such as droughts, flooding, insect pests, and others. Similarly, achieving drastic yield increases in agriculture is often not controllable. In this regard, rural entrepreneurship can offer innovative, cost-effective sources of living by crossing the boundaries among primary, secondary, and tertiary industries. It enables local people to appreciate the value of resources in the area and utilize them as inputs for creating value-added products and services. Thus, entrepreneurship diversifies sources of livelihood and increases per capita income. Furthermore, it creates jobs for the under and unemployed labor force and improves the autonomy and independence of rural households.

The MSME sector play extremely significant role in Indian economy. MSMEs have the advantage of generating employment with low investment, diversifying the industrial base, reducing regional disparities through dispersal of industries into rural, semi-urban and backward areas.

### **MSME Definition**

Definition of Micro and Small-scale enterprises in India has changed over the years. Micro, small and medium enterprises as per MSME Act 2006 are defined based on their investment in plant and machinery (for manufacturing enterprises)

and on equipment for enterprises providing or rendering services. The defined limit on investment for micro, small and medium enterprises is as follows.

**Table 1: Classification of Micro, Small and Medium Enterprises (MSME)**

Enterprises	Manufacturing Sector	Service Sector
Micro Enterprises	Does not exceed twenty five lakh rupees	Does not exceed ten lakh rupees:
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees	More than two crore rupees but does not exceed five crore rupees

(Source: [dcmsme.gov.in](http://dcmsme.gov.in))

The internal environment of an enterprise comprises firm-related factors that influence its capacity to achieve set objectives, develop and implement a viable plan, which consequently contributes to its performance. Internal environment can also be described as those internal controllable forces operating within the organization itself that have a direct impact on an organization's performance. These comprise production resources, financial resources, marketing and human resources. Hence, the growth of Micro, Small and Medium enterprises is an essential element for any thriving economy. Sandberg Vinberg and Pan (2002) have stated that performance of MSMEs is their ability to contribute to job and wealth creation through Enterprises start-up, survival, growth and creating balanced regional development.

## Literature Review

**Krishna et al (2012)** in their study on Factors Affecting the Performance of SMEs in Malaysia have proved that there is a significant positive relationship between the use of marketing information as well as the application of information technology and the performance of SMEs. **Thibault et al. (2002)** suggest that factors influencing business performance could be attributed to personal factors such as demographic variable and business factors such as amount of financing, use of technology, age of business, operating location, business structure and number of full-time employees as important factors in examining the performance as small scale business operators. **The Centre for Women's Business Research in the United States as sited in UNECE (2004) and Mahbub (2000)** have identified that access to finance, markets, training, networks and policymakers are the factors that affect women entrepreneurs. **Princy sainy (2014)** has presented a study about the significance of the MSME sector and the operational problems faced by these enterprises. The study has found that factors, namely, finance, marketing and lack of skilled labourers are the major problems affected the growth of manufacturing enterprises in MSME sector. Overall, the study has concluded that finance has been the major obstacle in the growth of Micro, Small and Medium Enterprises. It has also further concluded that, Government regulation has been stringent and complex. **Venkateswarlu and Ravindra, (2014)** have analysed the problems and prospects of rural entrepreneurs in Visakhapatnam District. The findings of the study has shown that, lack of specialized skill among the entrepreneurs, unawareness of latest technology, outdated technology, non-availability of technology on time has perceived as the technological problems, lack of co-operation and co-ordination among different developmental agencies, poor working conditions of various institutions related to entrepreneurship such as DICs and SISIs have perceived as the institutional problems and procuring finance as well as working capital from the different agencies, lack of sufficient working capital has perceived as financial problems faced by the entrepreneurs in the study area. **Aruna (2015)** has analysed the problems faced by MSMEs in Visakhapatnam. The finding of the study has revealed that, problems such as financial constraints and issues relating to power, raw material procurement are highly faced by the respondents and the study has also revealed the other problems such as obsolete technology, inadequate and irregular supply of raw materials, lack of organized marketing channels, irregular knowledge of market conditions, unorganized nature of operations, inadequate availability of credit facilities, constraint of infrastructure facilities including power, and deficient managerial and technical skills are the major problems faced by MSMEs in Andhra Pradesh, Visakhapatnam. **Krishnendu Malakar (2017)** has

investigated the five major Problems faced by Micro, Small and Medium Enterprises– A Special Reference to Small Entrepreneurs in Karimganj District, Assam. The finding of the study has revealed that, procurement of raw material, frequent power cut, lack of skilled man power, export and import, under utilization of production capacity, lack of support to market their products are the major problems faced by MSMEs in Karimganj District, Assam. **Sumathi .K and Kavitha .G (2017)** have assessed the challenges faced by the industries and have examined the problems of the MSMEs. The findings of the study have revealed that, Entrepreneurs who operate in a micro and small business have been affected by numerous internal and external influences that continuously impedes. The study has also found that, inadequate financial support, marketing problems and an unstable macroeconomic environment have hampered the micro and small enterprises growth in the study region.

### Statement of the problem

Despite the recognition that industrial entrepreneurship is one of the primary facets through which rural economic development can be achieved by creating employment and income opportunities to rural workforce and controlling rural-urban migration. Empirical research on rural entrepreneurship is relatively sparse and this concept remains largely unknown. Moreover, rural entrepreneurs in MSMEs' are facing many challenges in running their business, which are attributed to lack of comprehensive framework in terms of policies towards MSMEs development. In addition, there is a lack of skilled and talented workers in rural areas, prevalence of low level of technology which affects the quality of production as well as efficiency, productivity and also the business performance. This raises questions on whether the MSME rural entrepreneurs have the adequate and requisite skills, competences and capacity to manage their business units in a manner that enhances growth and survival. Hence, this paper has proposed a structural equation model to examine and to assess the effect of internal environmental factors on the performance of rural Micro, Small and Medium manufacturing enterprises in Coimbatore district.

### Objectives of the study

The objectives of the study are of the following:

1. To study the rural firm characteristics and to assess whether there exist any significant difference in production, finance, marketing, human resource and business performance among rural firm characteristics.
2. To examine whether production, finance, marketing and human resource factors significantly influence the business performance of rural entrepreneurs in MSMEs.

### Research Question

The research questions for this study are:

1. Do Production, finance, marketing, human resource factors and business performance significantly differ among rural firm characteristics
2. Do production, finance, marketing and human resource factors significantly influence the business performance of rural entrepreneurs in MSMEs?

### Research Hypothesis

Based on the objectives, the following null hypotheses have been framed and tested:

H<sub>01</sub>: There is no significant difference between rural firm characteristics and internal environmental factors namely, Production, finance, marketing, human resource and business performance.

H<sub>02</sub>: The internal environmental factors namely, production, finance, marketing and human resource do not have a significant influence on the business performance of rural MSMEs.

### Research Methodology

The study has employed descriptive and analytical design. Rural entrepreneurs who has registered their business units with the District Industries Centre (DIC) having minimum five years of business existence in rural areas has been considered as the population of the study. Sample size has been determined by applying krejcie and Morgan's formula (1970). A sample of

(N=9761) 370 rural MSME manufacturing enterprises registered under District Industries Centre (DIC) and filed Udhog Aadhar Memorandum (UAM) have been selected by using stratified random sampling technique. For instrument development, Reliability test and validity test has been performed. A structured interview schedule has been designed to collect the primary data from the rural entrepreneurs. Statistical tools such as percentage analysis, descriptive statistics (mean and standard deviation). ANOVA test has been applied to find whether internal factors and business performance significantly differ among firm characteristics. Moreover, a Structural Equation Model has been proposed to examine the effect of production, finance, marketing, human resource towards the business performance of rural entrepreneurs in Micro, Small and Medium Manufacturing Enterprises (MSMEs).

### Reliability and validity of the study measures:

Cronbach’s alpha test has been performed to test the reliability of the research instrument and the results are presented in the table:

**Table 2 - Reliability and validity test results**

Factors	Cronbach alpha	CR	AVE	Skewness	Kurtosis	Homogeneity	Multi-collinearity
Production	0.862	0.88	0.56	-.913	.732	.073	2.786
Finance	0.779	0.86	0.51	-.151	-.361	.072	2.171
Marketing	0.732	0.74	0.54	-.214	.059	.071	2.858
Human resources	0.820	0.89	0.59	-.366	-.525	0.68	2.364
Business Performance	0.854	0.78	0.57	-.387	.057	.077	2.078

(Source: Computed) (CR-Composite Reliability, AVE-Average Variance Extracted)

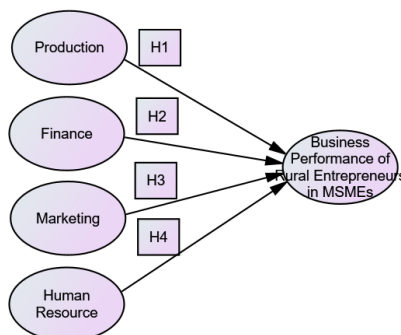
**Table 3 - Discriminant Validity**

Variables	AVE	Production	Finance	Marketing	Human resources	Business Performance
Production	0.56	<b>0.748</b>				
Finance	0.51	0.369	<b>0.714</b>			
Marketing	0.54	0.326	0.224	<b>0.734</b>		
Human resources	0.59	0.403	0.146	0.362	<b>0.768</b>	
Business Performance	0.57	0.422	0.241	0.470	0.307	<b>0.754</b>

(Source: Computed) (AVE-Average Variance Extracted)

### Theoretical Framework

The main purpose of this study is to examine the extent of internal environmental factors influencing the business performance of rural entrepreneurs in Micro, Small and Medium enterprises (MSMEs). Figure 1 below show the theoretical framework with four main hypotheses has to be tested in this study.



**Figure 1 Theoretical Framework**

### Findings and Discussions

#### Rural Firm Characteristics:

The factors namely, business age, legal status, nature of business, total investment in plant and machinery, source of finance, annual turnover and annual profit have been analyzed and the results are presented in the table.

**Table 4: Rural Enterprise Characteristics**

Characteristics		No. of Respondents	Per cent
Business Age (in Years)	5-7	74	20.0
	<b>8-10</b>	<b>186</b>	<b>50.2</b>
	More than 10	110	29.8
Legal status	<b>Sole proprietorship</b>	<b>244</b>	<b>66.0</b>
	Partnership	126	34.0
Nature of Business Activity	Textile processing units	111	30.0
	<b>Engineering works</b>	<b>170</b>	<b>46.0</b>
	Others (Paper, Plastics, Coir, food, and chemical manufacturing enterprises)	89	24.0
Total Investment in Plant and Machinery	<b>Less than Rs.25 lakhs</b>	<b>306</b>	<b>82.7</b>
	Rs.25 lakhs –Rs.5 crores	63	17.0
	Rs.5 crores– Rs.10 crores	1	0.3
<b>Total</b>		<b>370</b>	<b>100</b>

(Source: Primary data)

The study has looked the business profile in terms of business age, type, nature of activity and business size. Accordingly 50.2 percent of the respondents have 8-10 years of business existence, 29.8 per cent of the respondents have more than 10 years of business existence and 20 per cent of the respondents have 5-7 years of business existence. 66 per cent of the respondents are doing sole – proprietorship business and 34 per cent of the respondents are doing partnership business. 46 percent of the respondents are running engineering business, 30 percent of the respondents are running textile processing, 24 per cent of the respondents are doing other manufacturing business such as plastics, paper, food business etc. 82.7 per cent of the respondents are running micro business, 17 per cent are running small business and only 0.3 per cent enterprises are running medium enterprises.

### Descriptive statistics

The rural entrepreneurs have asked to give mean ratings on a five point likert scale ranging from 1 to 5 where 1 for strongly disagree, 2 for disagree, 3 for neutral, 4 for agree and 5 for strongly agree. The high mean rating statements have been presented in the table respectively:

**Table 5: Descriptive statistics**

Factors	High agreeability Statements	Mean ranks
Production	Low cost machinery is used for production	4.02
Finance	Financial support from family, friends and relatives	3.59
Marketing	Customer feedback have taken to enrich product quality	3.81
Human resource	Cordial relationship is maintained with the employees	3.25
Business Performance	Customer satisfaction	4.51

(Source: Computed)

**ANOVA** – To examine whether Each of Dependent Variables (PR, FIN, MAR, HR and BP) significantly differ among rural firm characteristics.

**Table 6 : Factors Vs Enterprise Characteristics**

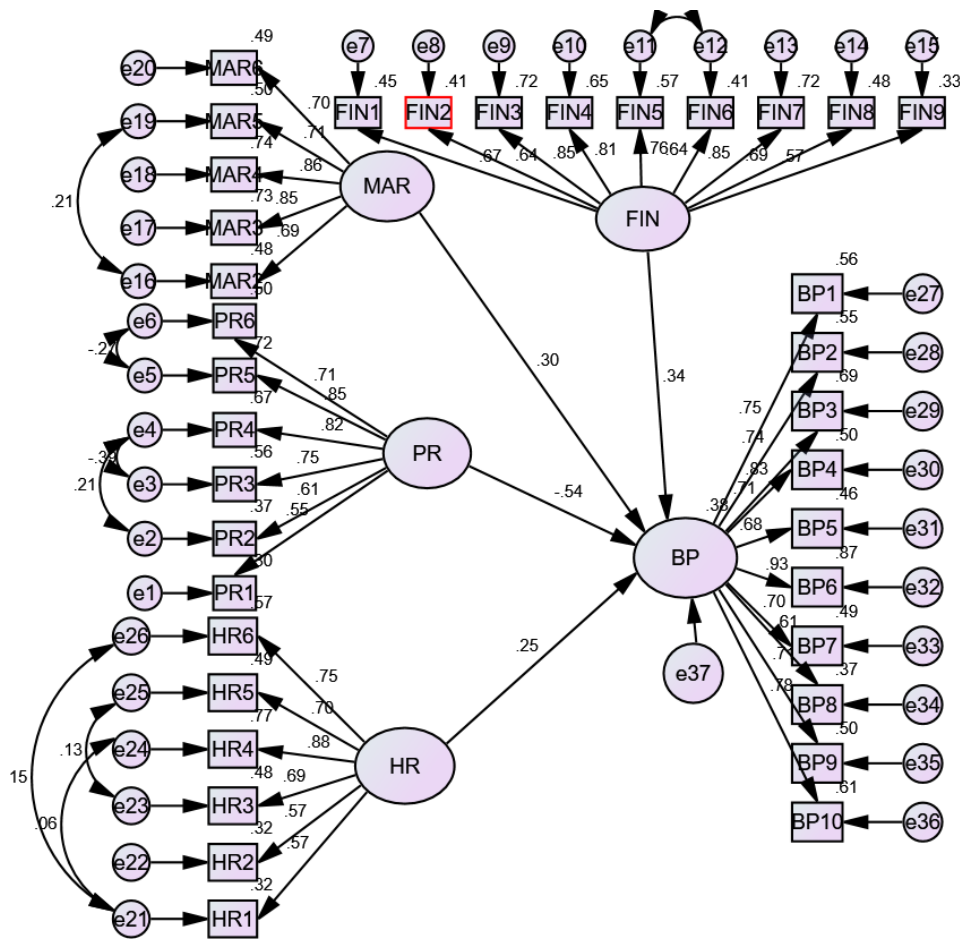
<b>Dependent variable</b>	<b>Independent Variable (Business profile factors)</b>	<b>F- statistic</b>	<b>Sig.</b>	<b>Hypothesis</b>
Production	Age of business	0.494	Ns	Rejected
	Type of business	2.322	Ns	Rejected
	Nature of business	5.312	**	Accepted
	Size of business	10.521	**	Accepted
Finance	Age of business	1.528	Ns	Rejected
	Type of business	2.164	Ns	Rejected
	Nature of business	2.015	Ns	Rejected
	Size of business	9.400	**	Accepted
Marketing	Age of business	3.852	*	Accepted
	Type of business	1.735	Ns	Rejected
	Nature of business	2.401	Ns	Rejected
	Size of business	6.854	**	Accepted
Human resource	Age of business	0.587	Ns	Rejected
	Type of business	1.589	Ns	Rejected
	Nature of business	1.987	Ns	Rejected
	Size of business	4.785	*	Accepted
Business performance	Age of business	3.816	*	Accepted
	Type of business	0.992	Ns	Rejected
	Nature of business	1.020	Ns	Rejected
	Size of business	3.887	*	Accepted

(Source: Computed) (\*\* - Significant at 1 per cent level, \* - Significant at 5 per cent level)

### Structural Equation Model

Four hypotheses have been tested in the model. Based on the p-values of the analysis, production, finance and marketing have a significant influence on business performance. While human resource factor does not have a significant and direct effect on business performance since the p-value is higher than 0.05. Among the significant factors, Finance has the highest positive influence on business performance and production has the highest inverse relationship with business performance. Therefore, the hypotheses from H2 to H4 have been accepted and the hypothesis H5 has been rejected.





### Conclusion

The downturn of employment opportunity in primary industry has resulted in migration of rural people to urban areas in search of better employment opportunities. In this regard, the Micro, Small and Medium manufacturing enterprises act as a catalyst of socio-economic transformation by generating employment with low investment, diversifying the industrial base, reducing regional disparities through dispersal of industries into rural and backward areas. In a nutshell, the study reveals that, size of the business have varied significantly with the entire dependent variables such as, Production, Finance, Marketing, Human resource and Business performance. In a proposed model, it has revealed that production factor has a direct negative effect on business performance because of lack of up gradation of technology in production while finance and marketing factor have a direct positive effect on business performance of rural MSMEs. It implies that in Coimbatore district, majority of micro enterprises undertake job works. Moreover, family, friends and relatives are the backbone of financial support. Frequent customer feedback received has enriched their product quality and able to satisfy their customers.

Apart from the findings of the study, several recommendations can be made from this study. The recommendations are of the following:

- The Government concessions, subsidies and schemes should be oriented towards encouraging the rural MSMEs to modernize their technology and make reviews, which will improve their productive efficiency and enhance their competitiveness.
- The Government should encourage public funded Research and Development Institutions to appoint indigenous techno-preneurs for the development of appropriate technology, which leads to substantial reduction in the cost of production, material wastage, energy consumption etc., which in turn will reduce the import of technology.
- Rural Entrepreneurs rely on friends and family for the source of equity. Securing bank loan is a tedious and time-consuming process involving lengthy formalities. The rural entrepreneurs are less aware of e-portals available to claim loans and subsidy, which is an alternative route to get financial assistance from banks. Hence, it is recommended to District Industries Centre to



offer training programs through industrial associations on the accessibility of e-portals which enable the rural entrepreneurs to smooth the progress of extending assistance from external sources and to facilitate their benefits regarding submission of application to avail subsidy and tracking of the status etc.,

- The rural manufactured goods have not been exported as there is much demand for the goods produced by rural Micro, Small and Medium manufacturing enterprises in International markets. Hence, it is recommended to the Government to establish an Export-Import facilitation centre in rural areas to help entrepreneurs to get an idea on Export-Import trade.
- The rural entrepreneurs purchase the raw materials in the open market at very high prices. The prohibitive material cost has weakened the viability of these production units. Hence, the raw material supplies should be made at controlled prices. Further, the Government procurement exclusive for MSME sector is a major policy instrument for strengthening the manufacturing industry and development of technological competence. It should be increased to more than the current rate of 20 per cent.
- The rural Micro, Small and Medium manufacturing enterprises are confronted by cut-throat competition from large scale industries and urban enterprises. Hence, the Government should encourage cluster approaches in a big way in the rural sector and common production-cum-marketing centers need to be set up in rural areas developed with modern infrastructural facilities. This will help them to be more competent in an International market.
- As rural enterprises are labour intensive, the lack of skilled labours are the major human resource problem faced by the rural entrepreneurs. Hence, the Industrial training institutes' syllabi should be revamped according to the needs of industries to adopt new technology especially to operate modern Computer Numerical Control (CNC) machines. Currently, the Indian Government provides training through business incubators to increase the sustainability and an inclusive growth of MSMEs. However, such training is mainly provided in the larger metropolitan areas and need to be extended to rural areas too.
- To strengthen the 'Make in India' programme, the District Industries Centre (DIC) can conduct the classes on Innovation viz., value addition to the goods manufactured by MSME entrepreneurs which will encourage them in augmenting the productivity, quality, and growth of enterprises.

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