

## **Governing agency Social capital as Competitive resource - A study among manufacturing MSMEs in Emerging Markets**

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### **Abstract**

Micro, Small and Medium Enterprises lays the foundation for increased growth and prosperity of a developing nation. The strength of industrialization of a developing economy extremely depends on the equitable growth of Micro, Small and Medium Enterprises. Since, MSMEs plays a greater role in the creation of wealth in advanced countries, their contribution towards developing economies should also be justifiable. Micro, Small and Medium enterprises are constrained by access to capital and support from external players especially Government. This may hamper the development of MSMEs in developing country. The present study examines the role of governing agency social capital in enhancing the performance of Micro, Small and Medium Enterprises within rural industrial population. The study helps the policymakers and academicians to rethink on how to develop MSMEs out of its shell.

Keywords: MSMEs, developing economy, governing agency social capital, external players, regulatory authorities.

### **Introduction**

Micro, Small and Medium Enterprises is the cornerstone for industrial development for both developed country and developing country. But their relative contribution towards innovation, exports and national income is relatively lesser, with special reference to

developing economy. Changing scenarios relating to globalization, customer preferences pressed the manufacturing sector to adopt with latest trends in relation to designs and capabilities to ensure speedy and timely delivery of products. Adopting with these latest trends makes the manufacturing firm competitive. Therefore, manufacturing competitiveness is to be focused from a three dimensional perspective, i.e., at the country level, industry level and firm level (Cruz and Rugman, 1992). Since Indian Industrial sectors are governed by Micro, Small and Medium Enterprises, their competitiveness should be focused from the regional to international level.

While looking from the perspective of developed economies especially European Union, United States, Australia, Canada and some of the Asian countries, the larger concentration of small and medium enterprises realized the success for such economies. But in the case of developing countries, SMEs are confined to operate within their geographical locations with less focus to technological interventions. (Rodriguez et al., 2012). Results of Central Statistics Organization revealed that industrial performance showed a declined rate of Gross Value Added of 5.6 per cent in the year 2016-17 as compared to 2015-16. The report of Central Statistical Organisation 2016-17 shows a declining trend in the growth rate of manufacturing sector, from 10.5 per cent to 7.9 per cent. It is being noted that this declining trend in relation to manufacturing attributes towards the decreased utilisation of capacity especially in the manufacturing sector which ultimately reflects the slowdown in the growth rate of industry performance.

Since MSME sector predominates the Indian Industrial sector, their competitiveness should be the point of discussion. Large number of MSME units are registered under service sector, but investments in relation to manufacturing sector is being in a declining trend. In 1980's the down turn in the manufacturing sector is primarily because of infrastructural bottlenecks as well as regulatory constraints from a broader perspective. After the period of 1980, there has been significant changes in the growth rate of industrial sector, specifically manufacturing. A maximum of 29 per cent was the contribution of industries towards GDP. The impact of recessions in the American and European economies also affected the Indian manufacturing sector a lot. But the growth rate of service sector has been increased from 40 per cent to 57 per cent during the period of 2006- 2012. This necessitated researcher to focus on Indian manufacturing sector as an area for discussion. (Singh, J, 2013).

Further it is suitable to have an overview on the contributions made by manufacturing products towards manufacturing sector. Among them the engineering products are categorised as high growth sector, closely followed by food, rubber and plastic which are

categorised as modest growth sector and the other products such as tobacco, textiles, paper , are included under low growth product category. It is noted that in India, Micro, Small and Medium Enterprises takes their lead as they contribute around 95 per cent among overall industrial sector. The contribution of micro enterprises are larger , then followed by small and medium enterprises.(MSME Annual report,2017.).It is also being noted that large number of MSMEs are constrained by capital requirements due to delay in administrative procedures , lack of awareness in relation to schemes and policies initiated, collateral and speedy disbursement of funds.

Therefore, the present study focuses on the impact of Governing agency social capital (Peng and Luo ,2000)which is very much crucial for improving the performance of micro ,small and medium enterprises. In the subsequent sections we present a theoretical understanding of Resource based view to have an overview of social capital , as important resources. Along with the same, governing agency social capital is also being discussed.

### **Literature reviews**

#### **Competitiveness and Indian Manufacturing MSMEs**

The entrants of global players into the domestic market necessitated industrial sectors to be competitive. The declining trend of manufacturing sector is mainly because the sector is not competitive conscious to withstand along the global players. Enhancing competitiveness of manufacturing sector has become imperative to make the industrial sector secured and towards a higher contribution in GDP (Dewangan et al.,2013). The domestic country's competitiveness lies largely on industry especially manufacturing and strengthening their capabilities is very much essential in the context. The longevity of small firms depends on the resources possessed by the firm. Studies on resources, specific to their nature, relationship with performance and so on are extensively researched (PG Green,1997). But less studies have been focused on the nature of competitiveness of resources, which may positively contribute towards firm capabilities. Less studies have been made in India in relation to capability deficiencies of Indian manufacturing industry especially SMEs (Singh, J,2013). It has been argued that indicators of competitiveness of a manufacturing industry are mainly technological competence, labour, infrastructure. Innovation is also regarded as an enabler of competitiveness of Indian SMEs (Porter 1966; Burgelman et al., 1988).

Manufacturing competitiveness is used as a measuring device for the development of Indian Manufacturing Industry. Apart from the same, to reach a growth rate of 25 per cent in GDP as per the National Manufacturing policy, there is a need to assess the competitiveness of manufacturing sector. While looking at the GDP growth rates individually among States,

Uttar Pradesh, Maharashtra, Bihar and Rajasthan were not satisfactory, whereas the growth rates of Gujarat and Maharashtra were highly satisfactory. (Mehta and Rajan, 2015), as the Government of these States put extra focus on the infrastructural advantages and encouragement to Small scale industries. This disparity in the growth rates among put emphasis on the problem of regional industrial efficiency specifically manufacturing and the present study focuses within the region of Kerala which is positioned least among various States.

In most of the developing countries, SMEs are popularly known as MSMEs, which are considered as important contributors for the development of their respective economy. From an Indian perspective the justification in relation to selection of MSMEs' as it contributes its major share in the industrial production (Ministry of MSME, 2017). The importance of MSMEs in India also been justified as it employs over 73.2 million people (Bhattacharya and Jha, 2015). Despite their largest contribution, the MSMEs short term performance focus remains as one of the important obstacles for their survival. Literatures are abundant from the year 2000 to 2018 for identifying the concepts of competitiveness of Indian manufacturing sector, relationship between competitiveness and SMEs, competitive advantage, resource based view, capabilities are reviewed from the publishers of Emerald, Elsevier, Inderscience, for getting clarity in relation to the same. The competitiveness of MSMEs depends extensively on the development of capabilities which may lead to superior performance within small and medium enterprises (Singh, J, 2013). The theory of Resource based view was used as a basis for substantiating the capabilities which are crucial for higher firm performance.

### **Resource based view and Firm Capabilities**

Resources and capabilities are two sides of the same coin for the success of the firm. The resource based view being in discussion for the time period of 20 years still is extensively used in strategic management, for generating sustained competitive advantage for firms (Barney et al., 1991; Carraresi et al., 2012). Resources and capabilities which are focused internally are explained by different authors in different country's context, as well as in terms of companies of different sizes. A unique combination of physical, human, organisational, entrepreneurial resources are essential to generate sustained competitive advantage. Each firm within the same industry are heterogeneous in nature. Heterogeneity of resources among MSME makes them unique and acts as milestones for development of capabilities within them (Johansson, B, 2004). Resources in isolation does not generate sustained competitive advantage. Capabilities also play an important role in the context (Lopez Cabarcos et

al.,2015).Firms which possess VRIN attributes is expected to enjoy sustained competitive advantage (Barney,1991). There are numerous researches done based on sustained competitive advantage generated based on the firm's VRIN framework. It is being argued that firm's capabilities are essential to potentially utilise resources effectively. But in the case of India, as there are regional industrial disparities among States , the examination of productive use of firm resources which makes them competitive, and these competitive resources generates capabilities which is essential for firm success.

As Innovation plays a critical role for enhancing industrial competitiveness in developing economy, it is necessary to study the extent of innovation in micro, small and medium enterprises as capability , which is derived out of the adoption of competitive resources. For the purpose of the study, competitive resources are classified as physical capital , entrepreneurs' capital and social capital and to analyse to what extent the competitive resources are positively associated with the capability of developing innovation.

### **Competitive Capabilities**

Resources in isolation seldom contribute to firm performance, but the application of these resources in the form capabilities is put forward by researchers (Grant, 1991; Teece, 2007).The dramatic transformation of economy as a result of transportation advancements, information and communication technology as a result of liberalization and globalization pressed the need of representing small and medium enterprises in the international markets (Fujitha, 1998; Keegan and Green, 2005).The low innovation capacity of Indian small and medium enterprises is revealed through Global Innovation Index (81 out of 141 countries) .Resource scarcity hinders SMEs from entering export markets (Moen, 1999).

A firm in order to develop the capability to export is influenced by high technological knowledge which becomes fruitful with the help of in-house Research and Development efforts, equipped with good number of scientist and engineers. (Romer, 1990; Jones, 1995; Abdihand Joutz, 2006). In case of emerging markets, where there are inhibitions in relation to innovation and technology, the knowledge in relation to IP protection is given least emphasis. (Thurrow, 1997). In many developing countries the innovations in MSMEs are informal with no particular focus on Research and Development in relation to investment, infrastructure and personnel and as a result, trademark may play a bigger role than patents which act as competitive resource for small and medium enterprises in emerging markets. As per the report published by Ministry of MSME, the number of units who have applied for patents are relatively low. Therefore innovations being given least focus, Small and medium enterprises are incompetent to recruit such skilled personnel due to lack of financial and

infrastructural constraints. This necessitates the need for capacity building programmes for enhancing the skills of engineers and workers through training, which can be developed through Human resource practices. Availability of Information relating to the market, technology, at the right time can impact firm performance .As part of developmental initiative Government of India has launched Digital India Programme in the year 2014 to transform the economy into digitally empowered society which can foster digital empowerments among all sections of society. Digital India Programme envisaged the use of Information and communication technology among Indian users especially business units and necessitates the development of capabilities in the form of computers, software applications, and telecommunication system for the purpose of information and knowledge sharing (Attaran, 2003).Small and Medium Enterprises are deficient in infrastructure which hamper the capability of adopting Information and Communication technology (Ongori and Migiro 2010). Developing capability to adopt information and communication technology enables ready access to information on an international scale (Minton, 2003; Ndubisi and Kahraman 2005) which enhances firm performance to a greater extend.

### **Competitive Resources -driver towards Sustained competitive advantage**

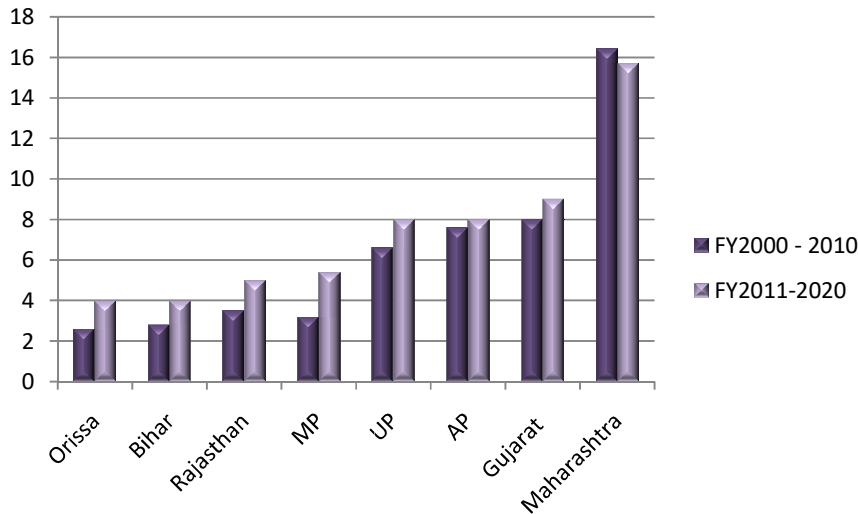
It is necessary to analyse the important resources which constitute improved performance which serves as a base for sustained competitive advantage.

The study identifies a strong theoretical understanding that strengthens the preposition highlighting the importance of competitive resources which are necessary for generating superior performance .The results of several studies exhibited differences in performance among firms within similar industries. (Cubbin 1988; Hansen et al.1989; Lewis and Thomas 1990). Industries belonging to different sectors especially in the field of manufacturing perform differently. The theory of RBV emerged as a solution to analyse such performance differences among firms (Rumelt, 1984; Conner, 1991).Resources are regarded as predecessors in the development path of the firm. (Wernerfelt, 1984).

Sustained competitive advantage is generated by firm's unique combination of resources, which are rare and valuable which ultimately forms the basis of improved performance. (Wernerfelt,1984;Barney,1991;Conner and Prahalad,1996;Dollinger,1999). The success of an enterprise lies in the efficient deployment of tangible and intangible resources, which represents the strength and weakness thusleading to competitive advantage (Grant, 1991).Tangible resources constitute physical resources such as location, facilities , plant, equipment where Indian small and medium enterprises lacks considerably to develop

manufacturing facilities as they were not aware of the latest manufacturing technologies currently available

Fig 1: Distribution of MSME in top 8 States (in percent)



MSME Annual report 2017

From Figure: 1, there are wide disparities among states in terms of GDP contribution. Even though there is an increased trend towards GDP contribution among States of Uttar Pradesh, Madhya Pradesh, Bihar and Rajasthan, their relative contribution towards the development of the country is low, whereas the States of Maharashtra, Gujarat and Andhra Pradesh contributes significantly greater towards development of the country. Land availability is an important issue pertaining to industrialization in India. Also there are stringent policies and regulation associated with land acquisitions especially for less industry friendly states. (Mukherjee, 2009). Therefore the regulatory authorities should ensure relaxations in policies to foster the growth of manufacturing MSMEs. All these postulate the need to focus on physical capital as competitive resource.

The birth of Micro, Small and Medium Enterprises are impossible without the golden hands of entrepreneurs. The ability of entrepreneurs depends on the firms' survival to a greater extent. Another important resource that evolved recently is Entrepreneurs' capital. It is the entrepreneurs' capital which determines the firm's ability to generate better income options

.The decisions relating to the investment in physical capital, social capital and human capital depends on the competencies of entrepreneurs. (Ngatno,2016). The variables used for entrepreneur capital is includes age, education and experience which is determined to have a significant impact on firms.For SMEs to survive, the skills and experience embedded in individual entrepreneurs' turns to be critical resource for firm's growth and development (Ahmed et al., 2010).Indian SMEs survival is greatly influenced by entrepreneurs' age, managerial experience, education; caste and social community (Bates, 1990)

Lack of knowledge, skill and experience possessed by entrepreneurs and workers which are critical for small and medium enterprise to develop the capability of exporting acts as a hindrance for SMEs survival. Presence of entrepreneurship literature relating to entrepreneurial experiences (Ronstadt, 1988) reveals entrepreneurial experience leads to a successful success. (Vesper, 1980).A wide recognition in the entrepreneurship literature showing the significance of positive contribution of entrepreneurial experience to venture performance (Ronstadt, 1988) contends that prior entrepreneurial experience can lead to success (Vesper (1980). Similarly, small firm's growth is heavily dependent on experience from similar businesses. (Chandler and Hanks, 1994). Lack of education, training and networking among the entrepreneurs pose a serious challenge in most emerging markets (Gumede and Ramussen, 2002; Herrington et al, 2009).

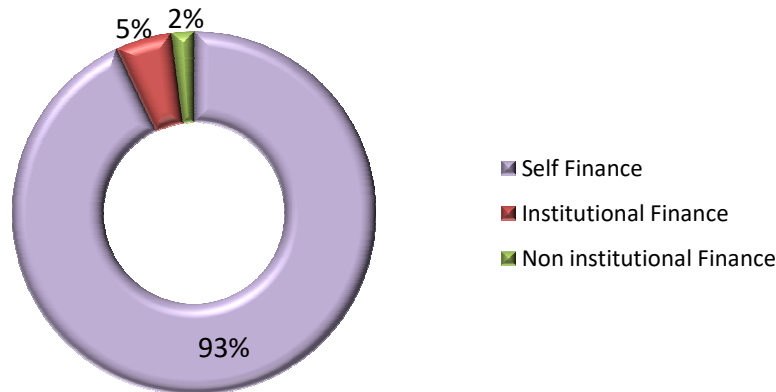
The stability of Indian manufacturing is heavily dependent on the focus towards greater emphasis on human resource development. In the year 2010, the employment growth of manufacturing sector was negative for private sector. The Human capital as an intangible resource is the investment made through education and training which in turn leads to increased human productivity resulting in increased firm performance (Schultz, 1961). Different researchers proposed social capital from the point of view of transaction, resource dependency, and social network theories (Premanatne, 2002).

Social capital postulates relationship two types of relationship such as external (bridging) and internal (bonding) (Adler and Kwon, 2002). Social capital as an intangible resource is vital for firm performance for small and medium enterprises in emerging markets (Roxas et al., 2017). Social capital is the relationship maintained by the firm with the institutions and players outside,that act as a base for better access to resources among manufacturing MSMEs. Dependency on external actors is crucial for small firms for their survival. By March 2010, around 48 per cent of MSMEs has been declared sick, because of lack of availability of working capital from institutional sources. The MSME firms can deploy such relationships for getting things done for the firm. In India, the growing importance of



financing for small and medium enterprises from external financing agencies pose a serious threat (Thampy, 2010).

Fig 2: Distribution of finance among various sources



Source: Government of India (2011)

From Figure:2 it is depicted that the percentage contribution of institutional finance towards registered MSMEs is relatively less, which is the major cause of self-financing by MSMEs (As per the fourth All India Census ,2006-2007).

It is noted that the timely and adequate support extended to manufacturing MSME are largely constrained by regulatory barriers (working paper -Centre for civil society). As a result of globalization, customers became cautious in their purchasing behaviour, they became highly demanding in nature, expecting high standards in the product as well as activities and operations among different business enterprises, which reflects in the operational cost of enterprises (Gilaninia et al.2015).Relationship with customers helps small and medium enterprises to acquire new skills (Appiah-Adu and Singh, 1998; O'Regan, Ghobadian and Gallear, 2005).Customer relationship is vital both in the short run and long run necessary to gain improved performance among manufacturing MSMEs in India.

This research, therefore examines to what extend variables explained with respect to Government and financial institutions contributes to social capital,which will foster improved performance among manufacturing MSMEs in India.

**Social capital as an important resource**

According to researchers, social capital has been viewed as critical resource for generation of information and knowledge either internally or externally. It is an intangible asset which enhances firm performance. (Andersson et al., 2002). As Micro, Small and Medium Enterprises are characterized by small firms, they need assistance and support from various organizations comprising the formal network of relationship. The success of small firms rest with the creation of social capital to enjoy competitive position. The MSMEs are viewed as relying on the suppliers, buyers and governing agencies, for improving their performance. After establishing these relations, it ultimately strengthens the future behavior from the relationship gained through mutual ties.

The present paper focuses on the Governing agency social capital (Park and Luo, 2001) which are necessary for improved firm performance. Governing agencies are considered as major institutional support mechanism which may influence firm's actions (Benson, 1995). Also it is essential for generating capabilities which is essential for superior firm performance for micro, small and medium enterprises. Our findings are based on 90 firms in Kerala being selected from different entrepreneurial associations.

**Governing Agency Social Capital with respect to Micro, Small and Medium Enterprises**

Agency is described as a collection of individuals or groups responsible for generating a meaningful solution which turns out to be a device for change (Newman and Dale, 2005). It is being argued that agency is essential for marshaling social capital (Dale and Sparks, 2010). In the context of small and medium especially located in rural areas, the support extended by Government sponsored institutions along with commercial banks are those agencies responsible for their survival. Social capital gained through the access of resources, information, and technology is essential to improve the performance of micro, small and medium sectors. Local Government plays an important role in enhancing industrial sector in rural areas. For the present study the current advantages and resources gained through Government and commercial banks is being utilized for improving firm performance of rural firms. . It is being argued that creation of supportive atmosphere for entrepreneurship rests with the policy makers and practitioners (Audretsch et al, 2006). As a part of National Manufacturing Competitiveness Programme devised by the Ministry, several schemes and policies in support of micro and small units such as marketing support schemes, setting up of mini tool rooms and training centres, awareness in relation to Intellectual Property Rights, promotion of ICT in manufacturing sector. But in reality these schemes and policies have not

reached the rural areas, of highly developed cities. Kerala occupies a prominent place in terms of literacy and infrastructure, still the performance of industrial sector is relatively weak.

### **Objectives**

To identify the governing agency social capital with respect to performance among manufacturing MSMEs.

### **Research Methodology**

This study is cross sectional in nature. The Governing agency social capital has been studied based on interview schedules based on established literatures. All constructs were selected based on conducting reliability test of Cronbach's alpha greater than 0.7. Kerala is placed least among the top 10 States in the growth of Micro, Small and Medium Enterprises, based on the report of Entrepreneurs Memorandum Part II registered as per Ministry of MSME 2014-15. Therefore, the researcher focuses, on the district of Ernakulam , as Ernakulam is considered as the commercial hub of the State. Apart from the same, Ernakulam is blessed with largest number of MSMEs within the State (Economic Review, 2017) The sample of 90 MSME rural firms was selected from a list provided by Directorate of Industries and Commerce, from engineering, food and plastic sectors. Engineering is selected as high growth sector among manufacturing sectors in India, followed by food and plastic which are categorised as modest growth sector among manufacturing sector in India (Mukherjee,2009).

### **Results and Discussion**

For the purpose of the study, governing agency social capital is the network of relationships with Government and banks necessary for enhancing rural firm success. The existence of Micro, Small and Medium enterprises depends on the support extended by Government, and banks for their existence, and therefore considered as competitive resource. Based on the variables selected the following hypothesis is framed. From the Indian MSME perspective, governing agency social capital is the support and assistance obtained from District Industries Centre, Kerala Small Industries Development Corporation, Kerala Industrial Infrastructural Development Corporation and commercial banks. District Industries Centre are the main institution which promote Micro, Small and Medium Enterprises in rural areas and backward areas. Kerala Small Industries Development Corporation provides infrastructural support , technical support, marketing support, as well as material acquisition support for strengthening Micro, Small and Medium Enterprises in the State. Kerala Industrial Infrastructure Development Corporation was focused on industrially backward regions which provide

facilities of well-equipped land, fewer interruptions in power, water which enhances the manufacturing environment of Micro, Small and Medium Enterprises.

### Hypothesis 1

H<sub>0</sub>: There is no significant difference among governing agency social capital with respect to firm performance among Micro, Small and Medium Enterprises.

Table 1

Differences in performance with respect to assistance obtained from District Industries Centre among micro units

Performance	Assistance from Government within 6 months (DIC)	Mean	N	Std. Deviation	p value
	Yes		12.6316	19	
No		14.7692	13	2.55453	0.067
Total		13.5000	32	3.25279	

Source: Primary data

From table no: 1, it is inferred that the performance of micro units which have obtained assistance from District Industries Centre within 6 months shows lesser. This is because the micro units who availed applied for subsidies in relation to commencement of a particular unit has to run with lots of bureaucratic procedures, which affects the performance of micro sectors. The entrepreneurs feel tiresome concerned with registering their units with appropriate authority (Directorate of Industries and Commerce). It takes minimum of 1 year to clear all the procedures. In Kerala for obtaining different licenses such as panchayat, pollution, power, labour, the entrepreneurs have to walk a long way and is faced with bureaucratic and regulatory barriers. Because of the same, the entrepreneurs lose enthusiasm to survive within the industry.

H<sub>0ab</sub>: There is no significant difference in performance with respect to assistance obtained from Kerala Small Industries Development Corporation among micro units.

Table 2

Difference in performance with respect to assistance obtained from Kerala Small Industries Development Corporation among micro units

Performance	Assistance obtained from SIDCO	Mean	N	Std. Deviation	p value
	Yes		14.3333	9	
No		13.1739	23	3.20017	0.013
Total		13.5000	32	3.25279	

Source: Primary data

The requirements of micro sectors at the initial stages of business operations by Kerala Small Industries Development Corporation are met more timely as compared to District Industries Centre. Small Industries Development Corporation takes due consideration in relation to the provision of infrastructural facilities like provision of building, raw materials as well as technical consultancy. The terms and conditions in relation to industrial sheds are availed in a relaxed manner.

Table 3

Difference in performance with respect to assistance from District Industries Centre among small sectors

Performance	Assistance from DIC	Mean	N	Std. Deviation
	Yes		16.1538	26
No		15.3333	9	3.80278
Total		15.4571	35	3.40711

Source: Primary data

From table 3, it is observed that the entrepreneurs under the small sectors are capable of subsidies in terms of purchase of plant and machinery as well as technological support. Despite enhanced infrastructural facilities creates a favorable industrial atmosphere to those sectors. Thus the performance of small sectors are significantly influenced by District Industries Centre.

Table 4

Difference in performance with respect to assistance from Kerala Small Industries Development Corporation among small sectors

Performance	Assistance from SIDCO	Mean	N	Std. Deviation
	Yes		16.1111	9
No		15.2308	26	3.78743
Total		15.4571	35	3.40711

Source: Primary data

It is observed from table 4, the small sectors which have received assistance in terms of grants for the establishment of tool rooms through credit linked capital subsidy schemes tends to exhibit better performance than others. Moreover the entrepreneurs are able to expand their area of operations as land acquisition is not a tedious task.

Table 5

Difference in performance with respect to assistance from Kerala Industrial Infrastructure Development Corporation among small sectors

Performance	Assistance from KINFRA	Mean	N	Std. Deviation
	Yes	16.5000	31	1.73205
	No	15.4516	4	3.58551
	Total	15.4571	35	3.40711

Source: Primary data

From table 5, it is being observed that with uninterrupted water supply, better connectivity, proper effluent treatment plant, impacted the performance of small sectors significantly under Kerala Industrial Infrastructure Development Corporation. The entrepreneurs participate in exhibitions conducted nationally and internationally which helps the units to gather large number of customers within and abroad. Such participation enables the small entrepreneurs to meet dominant exporters in their related areas. Such collaboration also ensures participation of technicians and experts which is very much essential in improving the quality of products as well as technology.

Table 6

Difference in performance with respect to assistance from District Industries Centre among medium sectors

Performance	Assistance from DIC	Mean	N	Std. Deviation
	Yes	20.0000	14	1.96116
	No	16.6667	9	3.53553
	Total	18.6957	23	3.09596

Source: Primary data

From table 6, it is observed that the medium sectors are able to withstand with the heavy bureaucratic cost prevalent in Government sponsored organizations. It is being observed that the Government is favorable to large public sector projects and support is extended to those, where, medium sectors play a predominant role. To those specified areas funds are allocated promptly without any delay. In spite of that, there are units which are funded by political backing.

Table 7

Difference in performance with respect to assistance from SIDCO among medium sectors

Performance	Assistance from SIDCO	Mean	N	Std. Deviation
	Yes	19.5000	6	3.20936
	No	18.4118	17	3.10360
	Total	18.6957	23	3.09596

Source: Primary data

From table 7, medium sectors who have received assistance and support in terms of machinery, raw materials, and technology are relatively lesser. This may hamper the performance of small sectors.

Table 8

Difference in performance with respect to assistance from KINFRA among medium sectors

Performance	Assistance from KINFRA	Mean	N	Std. Deviation
	Yes	19.9167	12	2.28795
	No	17.5455	11	3.76997
	Total	18.6957	23	3.09596

Source: Primary data

From table 8, Kerala Industrial Infrastructure Development Corporation offers Standardized factory designs at subsidized cost. Kerala Industrial Infrastructure Development Corporation is regarded as export promotion zones. Absence of duty in relation to imports creates a favorable business environment, thus essentially improved the sales growth of medium sectors.

Table 9

Differences in performance with respect credit gap from commercial banks among micro sectors

Performance	Credit gap	Mean	N	Std. Deviation	p value
	within 1 month	2.8667	3	0.23094	
	1-3 months	2.6857	14	0.79890	
	3-6 months	2.6800	15	0.57470	
	Total	2.7000	32	0.65056	

Source: Primary data

From table 9, micro sectors that obtain assistance from commercial banks within 1 month is capable for better performance than others. During the initial period of establishment, the micro sectors are less capable of heavy costs resulting as a result of huge transaction cost. Similarly the previous experience in running the business also increases the chances of further risk and the officials should be crystal clear regarding the previous background of the entrepreneur and this hampers the financial support extended by commercial banks. As a result the p value is insignificant for micro sectors.

Table 10

Differences in performance with respect credit gap from commercial banks among small sectors

Performance	credit gap	Mean	N	Std. Deviation	p value
	within 1 month	3.4286	14	0.67872	0.05
1-3 months	2.8526	19	0.61407		
3-6 months	3.0000	2	0.56569		
Total	3.0914	35	0.68142		

Source: Primary data

From table 10, it is being inferred that the small sectors are capable of better repaying capacity than micro sectors. Therefore, the trust in relation to small sectors is greater as compared to that of micro sectors. The transparency in relation to books of accounts is an important criterion for deciding on the lending norms by the commercial banks.

Table 11

Differences in performance with respect credit gap from commercial banks among medium sectors

Performance	credit gap	Mean	N	Std. Deviation	p value
	within 1 month	3.7200	15	0.57966	0.97
1-3 months	3.8000	5	0.89443		
3-6 months	3.7333	3	0.50332		
Total	3.7391	23	0.61919		

Source: Primary data

From table 11, it is being inferred that, the credibility of medium sectors among commercial banks is comparatively high as compared to micro and small sectors, since the medium sectors are having greater repaying capacity than others. Medium sectors will not make any default in payment of interest. It is being argued by micro and small sectors as, both the public sector and private sector banks are demanding collaterals for the purpose of lending terms. Collaterals are required for meeting uncertainties arising in future. This may even lead the banks to closure. They also opined that the public sector banks charge higher rate of interest than private sector banks. Irrespective, these issues doesn't matter for lending to medium sectors.



**Findings and Suggestions of the Study**

From the analysis, it is clear that that Government plays a very important role from the stage of inception of small firms. Still the bureaucratic nature refrains the entrepreneurs from availing support from these institutions. Entrepreneurs in the micro and small units often complain that registration process is prolonged as a result of red tape and bureaucracy. Commercial banks are maintaining a positive attitude especially for medium sectors, as these sectors have a strong repaying capacity. Inefficient project planning is the primary constraint for the commercial banks to set back in lending to micro sectors. The infrastructural facilities in the development areas/plots sponsored by District Industries Centre should be improved.

As a result of increasing importance of small units, banks started to develop positive attitude towards entrepreneurs. But the entrepreneurs should be more responsible to make timely payment, thus strengthens relationship.

1. The Government as an external player plays a significant role for strengthening the structural social capital of Micro, Small and Medium Enterprises.
2. Since majority of the micro and small units are occupied by older generations, they are reluctant to change their attitude, especially in terms of technology adoption.
3. Contradictory from the industrial scenes of Tamil Nadu and Gujarat, the State of Kerala is not industry friendly, therefore any schemes introduced at the Central level is very difficult to be implemented in the State. Ancillarisation of industries is the organisational form, most prominent in the State of Kerala, where such industries are promoted more by the Governments in the State of Tamil Nadu, Karnataka and Gujarat.
4. Officials from the Industries department at the Central level have to conduct monthly inspection with respect to working of the units.
5. Timely availability of Entrepreneur Support Schemes is a crucial factor.
6. Manufacturing technology competitiveness should be improved especially for micro and small units. More support schemes should be extended for adopting better technology.
7. The public sector undertakings in Kerala should extent their hands to make bulk orders from small industries.

8. The responsibility of District Industries Centre also lies on the provision of experts who will look after the preliminary stages involved in setting up a unit so that the entrepreneur will be confident enough to invest their full potential in respective units.

### **Conclusions and policy implications**

Relationships maintained with formal organizations are fundamental for ensuring sustenance. An atmosphere of bureaucracy and corruption stills prevails, especially in rural areas. It may impose overburdened preliminary set up cost especially for micro units. It is being noted that making unauthorized payment in relation to obtaining clearances is more evident in small and medium enterprises. Awareness in relation to technology oriented training programmes should be surrounded through Government sponsored agencies. It is being evident a certain class of SME population are restricted to have awareness in relation to expos and seminars. The limit of Entrepreneur Support Schemes needs to be further increased as a result of increase in price of equipment and facilities. The infrastructural facilities need to be better equipped especially offered by District Industries Centre and Kerala Small Industries Development Corporation.