

# Entrepreneurship and Startups in the Digital Era-The Impact of Working Capital Management of Micro, Small and Medium Enterprises in India.

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## Abstract

Entrepreneurship is the process of innovating new ideas, techniques, recognizing opportunities, bearing the risks and reward. Entrepreneurship is the important for our country. Nowadays more number of skilled workers and women's are become entrepreneurs in MSMEs. MSMEs and Entrepreneurs are focuses on Employment creation, Economic growth, and Economic development. Micro, Small and Medium Enterprises (MSMEs) are greater importance as a country moves faster and inclusive growth. MSMEs are complementary to the large industries as ancillary units. The paper focuses on entrepreneurship and startups and how they manage their working capital for their day to day operation. Establishment of schemes or Programmes, Progressive credit policies and practices, for promotion and development and sustainability in the economy. The study used secondary sources of Data. The period of the study covers the 2010-2019. Variables for the study are Return on Investment (ROA), current ratio (CAR), Quick ration (QUR), Net profit Ratio (NPR), Accounts Receivable Period (ARP), Accounts Payable Period (APP). Descriptive statistics, correlation, regression, Hausman test were used for the study. The paper concludes that the MSMEs and Entrepreneurship contribute to economic growth and development of Indian economy.

**Keywords:** Entrepreneurship, MSMED Act, Employment Creation, Economic Growth, Schemes.

## Introduction

In India, the Micro, Small and Medium Enterprises Development Act (MSMED) 2006, defines MSMEs. It introduces the concept of enterprise as opposed to the earlier concept of industry. The MSMED Act, 2006 has clear idea the concept of enterprise to include both manufacturing, service sector and medium enterprises. Entrepreneurship means entertain the premier show = Entrepreneurship. Darren et al (2009) defined entrepreneurship as a process where an individual discovers, evaluates and exploit opportunities independently. Entrepreneurship is the process of governing to the creating of SMEs while SMEs represents firms or business in small and medium sizes. Entrepreneurship involves the process of bringing up the potential entrepreneurs to become more powerful in running their organizations. Entrepreneurs play an important role in our economy.

Entrepreneurship and MSMEs are moves towards the same objective. They have been aiming towards the employment creation, economic growth, and economic development. The MSME owners and entrepreneurs possess the same quality such as precise planning, self-confidence, self-initiative, creative problem solving. The entrepreneur need a suitable policy and entrepreneur's development Programmes to make the entrepreneurs more competitive and sustainability. MSMEs are encouraging the skilled workers to start enterprises mostly in the rural areas.

Entrepreneur are get motivated and supportive measures which are provided by government of India that is MUDRA scheme and stand up scheme especially focuses on the entrepreneurs. Some government policy and schemes interventions created for the growth of entrepreneurship in the MSMEs sector in India. There is a need for MSMEs to innovate new process and approaches to develop products which differentiate from other products. There was a lack of awareness, opportunities, and risks arising many problems and prospects to the entrepreneurs. To face a competition from domestic and multinational companies, entrepreneurs need a training, supportive measures and government Programmes for their survival in the global market.

## Securities offered by banks for getting loans to MSMEs

### Factoring

Factoring is one of the source for getting finance for business activity under this a business entity sells its receivables to a third party at a discount and receives immediate payment to finance its business. Factoring is preferred one for accessing working capital for both SMEs and large organizations. SMEs and large organizations benefited from the factoring.

### Credit rating

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A credit rating is a qualified assessment of the credit worthiness of a borrower. A credit rating can be assigned to SMEs for their working capital requirement. Banks and lenders use a credit rating as one of the factors to determine whether to lend money.

### **Commercial paper**

Commercial paper is a money market security sold by banks to a SMEs for getting loans to meeting short term working capital requirements.

### **Bank credit**

It is an agreement between banks and borrowers. The banks lend a loan to SMEs based on their assessment of creditworthiness of the SMEs.

### **MSMEs – Contribution towards Indian Economy**

There are 630.52 lakhs MSMEs in India. Out of this, more than 96.19% of them are from micro enterprises, followed by that (3.31) are from small enterprises and 0.5 are from medium enterprises. The 51% of the MSMEs are located in rural area and 49% are located in urban area. MSMEs contribute 30% to GDP and employs around 50% of industrial workers. The MSMEs are produced 6000 quality of products. The MSMEs are creating 110.99 million employment opportunities to the people. More than half of the MSMEs (81%) are used the own source of finance and only 7% of them are used the borrowing fund and from government sources. The MSMEs are solving many problems in India such as unemployment rate, poverty alleviation, economic disparities, and lack of entrepreneurship skill development.

### **Review of Literature:**

- Mahendra Reddy (2007) in his study entitled “Small Business in Small Economies: constraints and opportunities for growth”. The role of small business is more critical in small states where size, technology, capital and other resources constraints limit the establishment of large business. The primary data was used. Data was collected from household of Fijis Island. This study is conducted to examine how small business have contributed towards rising household’s income and to identify the various problems that are plaguing these establishments. The results reveal that poor low and order/ security, lack of finance and appropriate skills are major impediments to small business growth and developments.
- John P. Hayes Collins et al (2015) in his study entitled “comparative study of problems encountered in the development of small business in the U.S and Mexico”. This paper examines problems and challenges faced by small business in U.S and Mexico. The study revealed a significant difference between the factor structure of the problems areas as perceived by Mexican entrepreneur and US entrepreneur.
- Qazi Abdul Subhan et al (2014) in his study entitled “Innovation and Economic Development: A case of small and medium enterprises in Pakistan”. This study empirically examines the impact of process innovation prevailing in small and medium enterprises on economic development. The period of analysis consists of 1980-2013. The data have been collected from Asian development outlook 2013, Pakistan economic survey published by Ministry of Finance, Government of Pakistan and key indicator 2013. Log linear regression model has been used. Two regression equation econometric equation has been constituted.
- Francesco Barbera and Ken Moores (2013) in his study entitled “Firm ownership and productivity: A study of family and non-family SMEs”. The objective of this paper is to suggest whether family firms are better or productive than non-family firms. The data have been collected from the Australian Bureau of Statistics “Business Longitudinal survey”. Correlation, summary statistics, empirical results, BLS proxies for dependent and independent variables summary statistics of industry comparison of family and non-family firms. The result shows or the findings imply that the assumption of homogeneous labor and capital between family and non-family firms is inappropriate when estimating the production function.
- Catherine Collins et al (2015) in his entitled “Flexible small firms. Why some small firms facilitate the use of flexible workplace policies”. This paper reveals that small firms use the concept of flexible workplace policies other firms not used the workplace policies in their firms. While others do not and what factors contribute to the offering and use of FWPs within small firms. The data for this analysis are taken from multiple data sources collected at small firms. They use a multiple case study approach. NVIVO software was used to help organize the qualitative data. The coded data were used to write a profile of firms FWPs. The results suggest that structure social relations experienced through past places of employment have lasting effects on small firm’s owners in these current firms.

### **Statement of the problem**

The study desired to establish the challenges and opportunities facing Entrepreneurship and MSMEs for their working capital management. The lack of adequate and timely access of finance has been the biggest challenge. The main problem for the MSMEs is to how effectively manage working capital. The improper management of working capital was the reason for most of the MSMEs failure. Improper management of the working capital affects the growth of the firm and its profitability.

### **Objectives of the Study**

1. To understand the sources of working capital finance for Entrepreneurship and MSME.
2. To measure the issues and challenges in getting working capital for MSME.
3. To determine the relationship that exists between working capital management practices and performance of MSMEs.
4. To determine the impact of working capital management on the performance of MSMEs in the Puducherry.

## Hypothesis

### Working capital management vs small medium enterprise's performance

In order to examine the relationship between working capital management and study units performance, Ho following will Hypothesis.

H0<sup>1</sup>= There is no relationship between working capital management of MSMEs.

H0<sup>2</sup>=There is no relationship between efficiency and firm's performance.

H0<sup>3</sup>= Profitability has no relationship with firm's performance.

H0<sup>4</sup>=There is no significant relationship between working capital management and performance of MSMEs.

H0<sup>5</sup>=Working capital management do not impact the performance of MSMEs.

## Research Methodology

### Sample selection

The study covers Ten MSMEs firms.

### Data source

The study is extensively based on the secondary data. The data were obtained from audited financial statement of respective firms.

### Period of the study

The study period covered from 2010-11 to 2019-2020.

### Tools and techniques

Correlation analysis is used: The purpose of correlation analysis is to show whether the variables are multi-co linearity. Regression analysis: the purpose of regression analysis is to understand which among the independent variable are related to the dependent variable, and to explore the forms of these relationships. Descriptive statistics: this is used to describe the basic features of the data in a study. It provides simple summarizes about the sample and the measures. The kurtosis measures the Peakedness of the variables. Skewness determines the probability distribution of a random variable relative to the mean.. Jarque-bera test for the goodness of fit in a data distribution for the purpose of ensuring that skewness and kurtosis are normally distributed. Hausman test: this is used to compare two estimators which are both consistent under the null hypothesis but one is less efficient than the other.

### Analysis and interpretations

#### Correlation analysis

Table 1:

Correlation t-Statistic Probability	CR	APP	ARP	DSOI	NPR	ROA
CR	1.000000 ----- ----					
APP	0.104059 1.035751 0.3029	1.000000 ----- ----				
ARP	0.223988 2.275184 0.0051*	0.052417 0.519618 0.6045	1.000000 ----- ----			
DSOI	-0.002993 -0.029267 0.9764	0.957360 32.80513 0.0030*	0.022395 2.221751 0.8250	1.000000 ----- ----		
NPR	-0.119373 -1.190247 0.2368	-0.083564 -0.830143 0.4085	-0.082539 -0.819891 0.4143	-0.091101 -0.905621 0.3674	1.000000 ----- ----	
ROA	0.019216 0.190262 0.8495	-0.000224 -0.002218 0.9982	0.007281 0.072076 0.9427	0.014478 0.143339 0.8863	0.063278 0.627680 0.5317	1.000000 ----- ----

**Table 1** shows correlation matrix of Micro, Small and Medium Enterprises in India for the period from 2010 to 2019. It shows strength of relationship between variables. It indicates the direction of variables (either positive or negative values). The correlation analysis is used to show whether the variables are multi-co linearity. From the correlation analysis, there is no evidence of multi-co linearity, which means the test do not rightly reflect a causal relationship. It indicates that current ratio (0.0051) is significantly positively correlated with Average receivables period and accounts payable period (0.0030) is significantly positively correlated with day's sale of inventory with correlation probability value 5 % level of significance. Other values are Average receivable period, days sale of inventory, Net profit ratio shows insignificant value. Current ratio (2.275) is significantly positively correlated with Average receivables period and accounts receivables period (2.221) is significantly positively correlated with day's sale of inventory with correlation probability value 2% (t-Statistics) level of significance.

**Table: 2**  
**Descriptive statistics**

	CR	APP	ARP	DSOI	NPR	ROA
Mean	1.484214	6.229661	3.065732	12.68803	4.806958	1.137191
Median	1.505000	5.219835	5.938449	7.252989	2.650500	4.842255
Maximum	69.59880	847.7125	218352.1	132860.0	37.08960	568.9706
Minimum	0.210000	38.11245	488.1325	-949.8795	0.020000	-10.94544
Std. Dev.	753.1749	870.7831	223.3766	135.6731	789.8323	10.94984
Skewness	7.891022	9.061597	9.181544	9.114280	2.487563	-9.826040
Kurtosis	69.36845	86.63199	88.23462	87.69361	9.088772	97.69886
Jarque-Bera	19391.02	30511.50	31675.60	31272.03	257.6042	38975.33
Probability	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
Sum	14842.14	122966.1	306573.2	226880.3	48069.58	-1137191.
Sum Sq. Dev	56159964	75109483	49410742	18210815	61759678	54224.66
Observations	100	100	100	100	100	100

Shows **Descriptive Statistics (Table 2)** of Sample. Micro, Small and Medium Enterprises in India for the period from 2010-2019. The mean of 'current ratio' is 1.48 times with the standard deviation of 753.17 times and the maximum value of current ratio is 69.59. The mean of 'accounts payable ratio' is 6.229 times with the standard deviation of 870.7831 times. The maximum and minimum values of accounts payable ratio are 847.7125 and 38.11245 respectively. The mean of day's sale of Inventory is 12.68 with the standard deviation of 135.67, the maximum value of inventory turnover ratio is 132860.0 and the minimum is -949.8795. The mean of accounts receivable period 3.065732 with the standard deviation of 223.3766, the maximum of accounts payable period 218352.1 and the minimum is 488.1325. The mean of Net Profit Ratio is 4.806958 with the standard deviation of 789.8323 the maximum value of Net profit ratio is 37.08960 and the minimum is 0.020000. The mean of Return on Asset is 1.137191 with a standard deviation of 10.94984.

The kurtosis measures the Peakedness of the variables. Almost all the variable show a high peak. Skewness determines the probability distribution of a random variable relative to the mean. It shows all the variable are positive except Return on asset. Since a negative skewness indicates, in the tail, the right-hand side is shorter than the left-hand side while a positive skewness means that the left-hand side is shorter than the right-hand side. Jarque-bera test for the goodness of fit in a data distribution for the purpose of ensuring that skewness and kurtosis are normally distributed.

**Table: 3**  
**Regression**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-16861.12	13494.82	-1.249451	0.0214
CR	-0.138263	0.117071	-1.181015	0.2406
APP	-2.242590	4.476473	-0.500973	1.6175
ARP	0.087761	0.505886	0.173480	0.0016
DSOI	1.541030	2.872316	0.536511	0.5929
NPR	9.322912	14.28167	0.652789	0.5155

  

R-squared	0.847190	Mean dependent var	-11371.91
Adjusted R-squared	0.804612	S.D. dependent var	109498.4
S.E. of regression	111377.2	Akaike info criterion	26.12794
Sum squared resid	1.181233	Schwarz criterion	26.25820

Log likelihood	-1301.397	Hannan-Quinn criter.	26.18066
F-statistic	0.602000	Durbin-Watson stat	2.203140
Prob(F-statistic)	0.952227		

The result of regression has been summarized in **Table 3**. It is found that the independent variable current ratio is significant positively at 5 % level with the value 0.0214, with the Average receivables period is significant positively at 1% level (0.001), while the other variable's viz. accounts payable period, accounts receivable period, days sale of inventory, net profit ratio are insignificant.

The adjusted R<sup>2</sup> (80%) indicates the impact on return on asset explained by current ratio, accounts payable period, accounts receivable period, days sale of inventory, net profit ratio while the remaining 20% explained by the other reabsorbed variables.

The R-square shows 80% variations. The f statistics and probability shows that significant effect. The average payable period will reject the null hypothesis since it has effect on performance at 10% level of significant. The NPR have effect on performance at 5 % level of significant. This means the null hypothesis will be rejected and alternative hypothesis will be accepted.

**Table 4:**

**Period random effects test comparisons**

Variable	Fixed	Random	Var(Diff.)	Prob.
CR	6.065836	7.542646	17.897103	0.7270
APP	-4.161339	-3.038568	0.331584	0.0512
DSOI	-0.008762	0.042636	0.025645	0.7482
NPR	2.669958	2.037265	0.102311	0.0479

**Period random effects test equation**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-15898.00	14139.23	-1.124389	0.2640
CR	6.065836	17.09422	0.354847	0.7236
APP	-4.161339	4.868956	-0.854668	0.3951
ARP	-0.008762	0.543119	-0.016133	0.9872
DSOI	2.669958	3.107364	0.859236	0.3926
NPR	5.641984	14.85629	0.379771	0.7051

**Effects Specification**

**Table 5:**

**Period fixed effects**

R-squared	0.799223	Mean dependent var	-11371.91
Adjusted R-squared	0.859141	S.D. dependent var	109498.4
S.E. of regression	112156.5	Akaike info criterion	26.23066
Sum squared resid	1.071263	Schwarz criterion	26.62143
Log likelihood	-1296.533	Hannan-Quinn criter.	26.38881
F-statistic	6.688781	Durbin-Watson stat	2.240595
Prob(F-statistic)	0.798124		

**Table 6:****Housman test.**

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f. Prob.
Period random	13.110445	60.0294

In carrying determining whether fixed effect or random effect is to be accepted, the test is carried out. From the table the fixed effect result is to be accepted at 5% level of significance in this table it shows that coefficient is negative and the probability value shows zero means it is highly significant. When the coefficient shows positive and the probability shows the zero means it is not significant. In the Hausman test whether fixed effect or random effect is to be accepted, the test is carried out. In the APP and ARP shows negative value and probability shows zero so it is highly significant. CR, DSOI and NPR shows positive value and probability shows zero so it is not significant. From the test the fixed effect result is to be accepted at 5% level of significance

**Conclusion**

Sources of finance are the lifeblood for the MSMEs. Working capital is essential for MSMEs, rather than large scale industries. As compared to the large scale enterprises, the MSMEs are facing huge number of financial problems. The improper management of working capital can lead to failure of most of the MSMEs at the startup stage. The number of MSMEs are more than the large scale enterprises. The MSMEs are highly contribute to the employment generation, production and exports. Though they face many problems and prospects, the government implemented some of the schemes and subsidies for their remedial measures to recover of these situations.

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