

**Operational Efficiency and its impact on
Productivity in MSMEs: A study with reference to
Coimbatore district**

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Abstract

Micro, Small and Medium Enterprises (MSMEs) sector plays a crucial role in Indian economy; the sector is highly dynamic and vibrant. The state of Tamil Nadu is a significant contributor to the Indian economy with its dynamic approach in dealing with small and medium sized enterprises. Though, it's a prominent contributor, the MSMEs are constantly facing issues in finance to expand themselves to next stage of business environment. Financing channels and costs are often listed as one of the most restrictive characteristics of MSMEs inhibiting their growth in business environment. Amidst all the prevailing issues of Covid 19, the MSMEs are gaining up the pace with finance assistances from the schemes of central and state governments. Adding fuel to this, the finance from venture capital would take the SMEs a step further. Coimbatore is the region in Tamilnadu that has a lot of MSMEs next to the capital city of Chennai. This study is intended to analyze the impact of operational efficiency on productivity of MSMEs in Coimbatore district

Keywords: Micro, Small and Medium Enterprises (MSMEs), Indian economy, Covid 19, Operational Efficiency, Productivity.

Prologue and Problem

Micro, Small and Medium-Sized Enterprises (MSMEs) are of great value to the stable and sustainable development of the economy and viewed as a trigger of innovation and economic development, which can promote economic growth, urbanization, employment, technological innovation, social harmony, and stability. In India, there are 6.3 crores of unincorporated MSMEs¹ functioning under the heads of manufacturing and service, with Tamil Nadu having 49.5 lakh MSMEs providing employment to 96.73 lakh people and involved in manufacturing and trading of Auto parts and components, Readymade Garments and Leather and leather goods. The SMEs largely rely on traditional finance through banks or from non institutional lenders for their various stages of business, which is found insufficient to grow faster and higher. The non-corporate structure and small size of majority of MSMEs in India makes the capitalists reluctant in investing in them due to higher transaction costs and difficulties in exits out of such investments. By having a proper finance through venture capital to access higher business potential, the Indian MSMEs can extend their contribution to economic growth by providing extended employment and income opportunities. Further the fund of funds announcement for the sector from the Ministry of Finance worth INR 50,000 crores or equity investment has turned the attention of venture capitalists towards MSMEs.

The MSMEs have emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. It contributes significantly in the economic and social development of the country by fostering entrepreneurship and generating large employment opportunities at comparatively lower capital cost, next only to agriculture. MSMEs are complementary to large industries as ancillary units and this sector contributes significantly in the inclusive industrial development of the country. They are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global markets. The Indian MSME sector is incredibly heterogeneous in terms of size of the enterprises, variety of products and services produced and levels of technology employed.

¹ Annual Report on MSMEs 2021, National Sample Survey Office, Ministry of Statistics & Programme Implementation

Statement of the Problem

Since the post-independence, the small-scale sector is acting as the backbone to the Indian economy. It has shown its own remark in the various aspects such as, the no of units' establishment, procuring the employment to the both the rural and urban, net production and their business volume in terms of exports. Making the best use of the natural resources, by employing a high order of skilled and artistic talents through traditional handicrafts, India has attained a place of pride in the world. However, the advent of modern large scale mechanized industry. The imposition of restrictions on Indian trade by the British rulers and deteriorating socio-economic conditions led to the decline of small-scale industries. With the provision of a permanent place in the nation's policy of economic development after the attainment of independence, Small Scale Industries are on the path of progress and expansion. Micro, Small and Medium Enterprises (MSMEs) sector plays a crucial role in Indian economy; the sector is highly dynamic and vibrant. The state of Tamil Nadu is a significant contributor to the Indian economy with its dynamic approach in dealing with micro, small and medium sized enterprises. Though, it's a prominent contributor, the MSMEs are constantly facing issues in finance to expand themselves to next stage of business environment. Financing channels and costs are often listed as one of the most restrictive characteristics of MSMEs inhibiting their growth in business environment. The financial performance or productivity is highly based on its operational efficiency of MSMEs. With this setting the present research is intended to identify answers for the following research objective;

1. To analyze the impact of operational efficiency on productivity of MSMEs in Coimbatore district

Review of Literature

Junjuan Du and Zheng-Qun Cai (2019)² in their study entitled "The Impact of Venture Capital on the Growth of Small- and Medium-Sized Enterprises in Agriculture" opined that the venture capital can significantly improve the technology innovation, profitability, and growth ability of SMEs in China. The study found that the venture capital in China has its own characteristics in selecting investee and promoting the development of SMEs. Shankar R et al, (2021)³ opined that blue chip companies that raises finances through private equity predicts the stock price movements in NIFTY. Shankar R. (2018)⁴ found in his study that there is a significant impact of private equity investment towards the SENSEX and NIFTY. Shankar R. (2018)⁵ expressed that private equity is the blend of joint venture and venture capital that serves effectively the needs of the business. Shankar, R. (2017)⁶ identifies lack of clarity among the investors is the serious concern to be rectified by the investors. Venkatesh et al, (2016)⁷ in their study titled "VentureCapital Financing Strategy for Indian Micro Small Medium

²Junjuan Du, Zheng-Qun Cai, "The Impact of Venture Capital on the Growth of Small- and Medium-Sized Enterprises in Agriculture", *Journal of Chemistry*, 2020, <https://doi.org/10.1155/2020/2328171>

³ R. Shankar, D. Sridhar, K. Sivakumar. (2021). Systematic analysis of blue-chip companies of NIFTY 50 index for predicting the stock market movements using ANFIS machine learning approach. *J. Math. Comput. Sci.*, 11(1), 265-277.

⁴Shankar R. (2018). Private equity investment in India investors' outlook and problems with reference to Tamilnadu. *Thesis*. Bharathiar University, Tamilnadu. <http://hdl.handle.net/10603/303702>.

⁵Shankar, R. (2018). Private Equity Investments in Tamilnadu: Factors Defining it. *International Journal of Academic Research and Development*, 3(2), 645-649.

⁶Shankar, R. (2017). Challenges Faced by Private Equity Investors in Tamilnadu: An Analysis. *Indian Journal of Applied Research*, 8(7), 365-367.

⁷Venkatesh et al, "VentureCapital Financing Strategy for Indian Micro Small Medium Enterprises", *International Journal of Research in IT & Management*, Volume 6, Issue 2, 2016.

Enterprises” described the benefits & future prospects of venture capital. They expressed that the SMEs despite having a potential to work for economic development of nation, it suffers from raising adequate capital for its business. They opined that the venture capital is a growing form of finance accessing avenue for SMEs and they can help the SMEs grow and contribute to the economy.

Viswanatha Reddy (2014)⁸ in his study entitled “ Risk Capital And MSMEs In India” stated that some of the major risk capital options available for MSME sector internationally and in India are Venture Capital, Angel Investors, Public Listing, etc. Evbuomwan et al, (2013)⁹ in their study entitled “Sources of Finance for Micro, Small and Medium Enterprises in Nigeria” opined that the MSME operators still do not have enough funds for their operations and the analysis indicated that inadequate fund/working capital was their intense problem. In view of the assured role of MSMEs in economic development and poverty alleviation, it is recommended that all the funding apparatus directed at the MSMEs in Nigeria, be sustained and intensified.

Research Methodology

The study for the purpose of analyses covers both the MSMEs and venture capital firms. The Coimbatore region of Tamil Nadu has 1,08,077 MSMEs in which, 87 % are micro sized, 12 % are small sized and 1 % is medium sized enterprises. The total investment of these industries worth 16,512.73 crores and provides employment to more than 7 lakh employees in the district. The study by employing the proportionate random sampling method, the micro, small and medium sized companies from the district is being selected and the data will be collected through questionnaires. Hence, the total sample for the study is 50 companies from each sector.

TABLE 1: COMPANIES PROFILE

Variables	Classification	No. of Companies
Size of the Company	Micro sized	21
	Small sized	19
	Medium sized	10
Years of Existence	Less than 10 years	12
	Between 10 & 20 years	22
	Above 20 years	16
Business circle	Domestic	32

⁸ Viswanatha Reddy, C, “Risk Capital and MSME’s in India”. *International Journal of Entrepreneurship & Business Environment Perspective*. Vol. 3, Issue. 1, 736-744, 2014.

⁹Evbuomwan et al, (2013), “Sources of Finance for Micro, Small and Medium Enterprises in Nigeria”, 19th International Farm Management Congress, SGGW, Warsaw, Poland.

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Source: Calculated and compiled using Primary data

The table 1 represents the company profile of the sample companies selected for the study. It is evident from the table that most of the companies selected for the study are micro sized, having between 10 & 20 years of existence in the field and involving in domestic trade within the nation.

Regression Analysis of the impact of Operational Efficiency on Productivity of MSMEs

Regression analysis in respect of independent variable and exits over the dependent variables are being done in present section. Ordinary Least Square regression method is employed to accomplish the objective.

H₀: There is no significant impact of operational efficiency on the productivity of MSMEs

Table 2: Regression

Variable	Coefficient	Std. Error	t-Statistic	Prob.
OE	3.94	4.12	-1.23	0.04
C	2.66	5.84	-2.08	0.05
R-Squared	0.41		Durbin- Watson stat	1.07
Adjusted R-squared	0.38			
F-statistic	6982.14		Prob. (F-statistic)	0.00

Source: Calculated and compiled using primary data

The above table 2 represents the regression analysis over the impact of operational efficiency on the productivity of MSMEs. It is quite evident from the table that R² value has been 0.41. It depicts that possible significance posed by the operational efficiency on the productivity of MSMEs. Furthermore, the F value 6982.14 and the p value of 0.00, which is significant at 1 per cent level represents the rejection of null hypothesis, which certainly comprehends that there is a significant impact of operational efficiency on the productivity of MSMEs.

Conclusion

Despite high enthusiasm and inherent capabilities to grow, MSMEs have traditionally been facing some constraints - including lack of adequate & timely finance. Financing channels and costs are often listed as one of the most restrictive characteristics of SMEs in the business environment. The financing barriers faced by MSMEs are always higher than those of larger enterprises, such as high transaction costs, information asymmetry, inferior position in credit filtration, and greater risks in operation. That too after the Covid 19 pandemic issue, the difficulties have become stronger in various forms. Thus amidst all the barriers the MSMEs withstand the productivity excellence and contributing vastly for the economic growth of the nation.

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