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# A STUDY ON FACTORS CONTRIBUTING TO THE SUCCESS OF SMALL MANUFACTURING ENTERPRISES IN COIMBATORE DISTRICT

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***Abstract***
*Micro, Small and Medium Enterprises (MSMEs) occupy an important position in the industrial structure of India. The MSME sector in India is highly heterogeneous in terms of the size of the enterprises, variety of products and services produced and the levels of technology employed. The number of enterprises is about 26 million and these provide employment to 60 million persons. Of the 26 million MSMEs, only 1.50 million are in the registered segment while the remaining 24.50 million (94%) are in the unregistered segment in the year 2013-2014. The entrepreneurial quality, market accessibility, networking, technical knowledge and external environment are the factors contributing to the success of the small manufacturing enterprises. It is clear that about 53.33 per cent of small manufacturing units are at medium level of success followed by low level of success (27.78 per cent) and high level of success (18.89 per cent). The results indicate that the entrepreneurial quality, market accessibility, networking, technical knowledge and external environment are positively influencing the level of success of small manufacturing enterprises. The entrepreneurial quality of entrepreneurs and technical knowledge of small manufacturing enterprises should be improved through competency based training programmes and the market accessibility of small manufacturing enterprise should be increased through good market networks, improving quality of products and proper utilization of market opportunities.*

***Key Words: Factors Contributing to Success, Level of Success, Small Manufacturing Enterprises.***

## INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) occupy an important position in the industrial structure of India. In a country like India, wherein on one hand there is the acute problem of unemployment and on the other hand scarcity of capital, it is only MSMEs which are best suited under these conditions. Indian economy is characterized by huge size of population, availability of wide variety of abundant natural resources, ever growing size of market and shortage of capital. Development of agricultural sector is important but more emphasis should be placed on the development of industrial sector as it is only this sector which can help in solving numerous problems confronting our economy.

Over the years, the small scale sector in India has progressed from the production of simple consumer goods to the manufacture of many sophisticated and precision products like electronics control systems, micro wave components, electro medical Equipments, etc. The process of economic liberalization and market reforms has further exposed these enterprises to increasing levels of domestic and global competition. The MSME sector in India is highly heterogeneous in terms of the size of the enterprises, variety of products and services produced and the levels of technology employed. The sector has a high growth potential and performs a critical role in the manufacturing and value chains. Micro, small and medium enterprises (MSME) sector is characterized by low investment requirement, operational flexibility and location wise mobility.

The number of enterprises is about 26 million and these provide employment to 60 million persons. Of the 26 million MSMEs, only 1.50 million are in the registered segment while the remaining 24.50 million (94%) are in the unregistered segment in the year 2013-2014. The State-wise distribution of MSMEs show that more than 55% of these enterprises are in 6 States, namely, Uttar Pradesh, Maharashtra, Tamil Nadu, West Bengal, Andhra Pradesh and Karnataka. Further, about 7% of MSMEs are owned by women and more than 94% of the MSMEs are proprietorships or partnerships (Ministry of Micro, Small and Medium Enterprises, GOI, 2015).

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## REVIEW OF LITERATAURE

Audretsch (2005) showed the relationship between ownership, decision making and employee deployment and the performances of the firm. The finding showed that ownership profile was key factors in the success of an SME. Business plan

it hold its vital importance as better business planning reduced the risks associated with any business activity. Insufficient awareness of the need for a business plan was identified as one problem at the start up phase among SME's (Chami, 2006). Business information of relevance for the perception of ability to success and thereby for intention was relevant sources of inputs, markets and, technological solutions, and government rules as well as regulators policies. The availability of the information was found to be dependent on characteristics of the level of education, infrastructure qualities and media coverage and telecommunication systems, and on social capital side as networks and never the least the entrepreneurial skills (Deakins, 2007).

Thapa et al (2008) concluded that the level of education had moderate positive relationship with success of the small business firm. Supply chain integration, market cope, firm age, size of founding team, financial resources, founders marketing experience, founders' industry experience, and existence of patent protection were also instrumental for the success of SME entrepreneurs (Song et al 2008).

Kader et al (2009) viewed that the determinants of small business success as perceived and experienced by rural entrepreneurs depended on internal factors that referred to the inherent characteristics of the business or the entrepreneurs which were related to innovativeness, business knowledge, hard work, strong financial resources, product competitiveness and business networking. Government assistance was an external contributing factor to rural entrepreneurs' success in forms of financial assistance, training and extension services, marketing, moral support, technical assistance, infrastructure, and business-related policies.

Omar (2010) identified that competitive advantage, pursuing both technological and non-technological innovations were responsible for the success of the SME entrepreneurs. The study also suggested that the innovation was not confined to technological advances it also could be manifested in new marketing and distribution strategies, innovative reward structures, and departmental structures that added value to both the firm and customers.

Philip (2010) found that the most significant factors that affected the business success of SMEs were products and services, external environmental factors, and the management know-how. Products and services hypothesis accepted as innovative and high quality of product gave added value to SMEs customer. External environment hypothesis accepted as social network helped entrepreneurs to reduce risks and transaction costs, improve access to business ideas, knowledge and capital. Government support was vital to foster SMEs development and legal aspect was also used in selection operating decision in order to ensure SMEs future business success.

Chittithaworn et al (2011) found that innovative product, quality, cost, reliability, and services were the key strategic dimensions in business success of Thailand. Beside that companies must compete based on their strength and specialization which may be classified as cost leadership, differentiation, and focused. External environmental factor also played a very important role for firm success. Social network, government support, and legality were the key strategic dimension in external environment in business success. Inter-firm cooperation, consultation, performance measurement, and flexibility may play an important role in success. Inter-firm cooperation contributed positively to gaining organizational legitimacy and to develop a desirable marketplace reputation. Cooperation also may enable the small firms to improve its strategic position, focus on its core business, enter international markets, reduce transaction costs, learn new skills, and cope positively with the rapid technological changes.

Aman and Tahir (2012) identified four internal success factors as entrepreneurial quality, entrepreneurial authority, pricing and service, and human resource and five external success factors as government assistance, external environment, market support by the Government, market accessibility, and government rule were important factors that influenced business success. Chowdhury et al (2013) found that lack of infrastructure, sound political environment, access to market and capital were the major factors that positively hindered the success of the entrepreneurs.

Kinyua (2014) found that access to finance had the potential to positively affect performance of SMEs; management skills were found to positively and significantly affect performance of SMEs; macro environment factors were found to significantly affect performance and infrastructure did not significantly affect performance of SMEs.

**METHODOLOGY**

Coimbatore is one among the industrially developed and commercially vibrant districts of Tamil Nadu. It has got high concentration of small scale industries and medium and large scale industries. Therefore, Coimbatore district has been purposively selected for the present study. Out of 18 types of small manufacturing enterprises, the top six types of small

manufacturing enterprises have been selected for the present study based on the number of industrial units. The small manufacturing units have been selected by adopting stratified random sampling technique through pre-tested and structured questionnaire. The 150 small manufacturing enterprises from each type of small manufacturing enterprises have been selected, thus, the total sample size for the present study is 900 small manufacturing enterprises in Coimbatore district. In order to identify the factors contributing to the success of the small manufacturing enterprises, explanatory factor analysis has been employed. In order to study the influence of success factors on level of success of small manufacturing enterprises, multiple linear regression has been applied.

## RESULTS AND DISCUSSION

### SUCCESS FACTORS FOR THE SMALL MANUFACTURING ENTERPRISES

In order to identify the factors contributing to the success of the small manufacturing enterprises, exploratory factor analysis has been employed. The principal component method of factor analysis was carried out with Eigen Values greater than one through Varimax Rotation and the results obtained through rotated component matrix are presented in Table 1. The results of Kaiser – Meyer – Olkin (KMO test) Measure of Sampling Adequacy (KMO = 0.582) and Bartlett's test of Sphericity (Chi-square Value = 0.0011; Significance = 0.000) indicates that the factor analysis method is appropriate. There are five factors which are extracted accounting for a total of 78.86 per cent of variations on 23 items.

**Table 1, Success Factors for the Small Manufacturing Enterprises - Exploratory Factor Analysis**

| Factor | Item | Rotated Factor Loadings | Eigen Value | % of Variation | Factor Name |
|---|---|---|---|---|---|
| I | Good communication skills | 0.72 | 2.04 | 22.54 | **Entrepreneurial Quality** |
| | Innovativeness | -0.70 | | | |
| | Good business knowledge | 0.62 | | | |
| | Good managerial skills | 0.64 | | | |
| | Self confidence | -0.58 | | | |
| | Ability to satisfy customers | 0.56 | | | |
| II | Good market networks | 0.63 | 1.78 | 18.68 | **Market Accessibility** |
| | Market Accessibility | 0.70 | | | |
| | Quality of products | -0.65 | | | |
| | Market penetration | 0.70 | | | |
| | Market opportunity | 0.64 | | | |
| III | Entrepreneurial development agencies | 0.71 | 1.52 | 15.72 | **Networking** |
| | Financial institutions | 0.69 | | | |
| | Government officers | -0.64 | | | |
| | Business associations | 0.72 | | | |
| IV | Technical skills and knowledge | 0.69 | 1.26 | 12.10 | **Technical Knowledge** |
| | Business information | 0.61 | | | |
| | Trainings | 0.67 | | | |
| | Awards / Recognition | 0.68 | | | |
| V | Infrastructure facilities | 0.60 | 1.08 | 9.82 | **External Environment** |
| | Domestic economic conditions | 0.70 | | | |
| | Raw material supply | 0.68 | | | |
| | Government policy | 0.64 | | | |
| | **Cumulative % of Variation** | - | - | **78.86** | - |
| | **Cronbach's Alpha** | - | - | - | **0.84** |

Source: Primary Data
Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.
Rotation converged in 11 iterations.

The first factor is a combination of items of good communication skills, innovativeness, good business knowledge, good managerial skills, self-confidence and ability to satisfy customers. Thus, the first factor is named as **Entrepreneurial Quality** with an Eigen value of 2.04 which accounts for 22.54 per cent of the variance and has six items.

The second factor is named as **Market Accessibility** with an Eigen value of 1.78 which accounts for 18.68 per cent of the variance and has five items. The items are: good market networks, market accessibility, quality of products, market penetration and market opportunity.

The third factor includes a combination of items of entrepreneurial development agencies, financial institutions, government officers and business associations. Hence, this factor is named as **Networking** with an Eigen value of 1.52 which accounts for 15.72 per cent of the variance and has four items.

The fourth factor is labelled as **Technical Knowledge** with an Eigen value of 1.26 which accounts for 12.10 per cent of the variance and has four items. The technical skills and knowledge, business information, trainings and awards / recognition are included in this factor.

The fifth factor consists of items of infrastructure facilities, domestic economic conditions, raw material supply and government policy and it is names as **External Environment** with an Eigen value of 1.08 which accounts for 9.82 per cent of the variance and has four items.

Cronbach's Alpha of the scale was 0.84 indicating that each measure demonstrated acceptable internal consistency. It is inferred that entrepreneurial quality, market accessibility, networking, technical knowledge and external environment are the factors contributing to the success of the small manufacturing enterprises.

**LEVEL OF SUCCESS OF SMALL MANUFACTURING ENTERPRISES**

The level of success of small manufacturing enterprises was analyzed and the results are presented in Table 2.

**Table- 2, Level of Success of Small Manufacturing Enterprises**

| Level of Success | Number of Small Manufacturing Enterprises | Percentage |
|---|---|---|
| Low | 250 | 27.78 |
| Medium | 480 | 53.33 |
| High | 170 | 18.89 |
| **Total** | **900** | **100.00** |

Source: Primary Data

It is observed that about 53.33 per cent of small manufacturing units are at medium level of success followed by low level of success (27.78 per cent) and high level of success (18.89 per cent). It is inferred that majority of small manufacturing units are at medium level of success.

**INFLUENCE OF SUCCESS FACTORS ON LEVEL OF SUCCESS OF SMALL MANUFACTURING ENTERPRISES**

In order to study the influence of success factors on level of success of small manufacturing enterprises, multiple linear regressions has been applied and the results are presented in Table 3. The success factors are considered as independent variables and the level of success is considered as dependent variable.

The results indicate that the coefficient of multiple determinations ($R^2$) is 0.73 and adjusted $R^2$ is 0.71 indicating the regression model is good fit. It is inferred that about 71.00 per cent of the variation in dependent variable (Level of Success) is explained by the independent variables (Success Factors). The F-value of 43.237 is statistically significant at one per cent level indicating that the model is good fit.

**Table- 3, Influence of Success Factors on Level of Success of Small Manufacturing Enterprises**

| Success Factors | Regression Co-efficients | t-Value | Sig. |
|---|---|---|---|
| Intercept | 2.468** | 3.954 | .000 |
| Entrepreneurial Quality ($X_1$) | 1.112** | 3.918 | .001 |
| Market Accessibility ($X_2$) | 1.246** | 3.610 | .000 |
| Networking ($X_3$) | 1.312** | 3.514 | .010 |
| Technical Knowledge ($X_4$) | 1.028** | 3.360 | .000 |
| External Environment ($X_5$) | 1.264** | 3.412 | .010 |
| $R^2$ | 0.73 | - | - |
| Adjusted $R^2$ | 0.71 | - | - |
| F | 43.237 | - | 0.00 |
| N | 900 | - | - |

Source: Primary Data

Note: ** Significance at one per cent level.

The results show that entrepreneurial quality, market accessibility, networking, technical knowledge and external environment are positively influencing the level of success of small manufacturing enterprises at one per cent level of significance. It reveals that networking, external environment, market accessibility, entrepreneurial quality and technical knowledge are positively influencing the level of success of small manufacturing enterprises in the order of importance. Therefore, the null hypothesis of there is no significant influence of success factors on level of success of small manufacturing enterprises is rejected.

**FINDINGS OF THE STUDY**

The foregoing analysis shows that the entrepreneurial quality, market accessibility, networking, technical knowledge and external environment are the factors contributing to the success of the small manufacturing enterprises.

It is found that about 53.33 per cent of small manufacturing units is at medium level of success followed by low level of success (27.78 per cent) and high level of success (18.89 per cent).

The regression analysis reveals that the entrepreneurial quality, market accessibility, networking, technical knowledge and external environment are positively influencing the level of success of small manufacturing enterprises.

**CONCLUSION AND SUGGESTIONS**

The main objective of this study has been to identify the factors contributing to the success of small manufacturing enterprises. This study clearly supports that entrepreneurial quality and networking are important factors which affect the success of business enterprises (Kader et al 2009). The results also confirm that external environmental factors are key for success of SMEs (Philip, 2010; Kinyua, 2014). This study also reveals that technical knowledge and market accessibility may be linked with the success of SMEs (Omar, 2010).

The entrepreneurial quality of entrepreneurs and technical knowledge of small manufacturing enterprises should be improved through competency based training programmes and the market accessibility of small manufacturing enterprise should be increased through good market networks, improving quality of products and proper utilization of market opportunities.

In order to develop the successful small manufacturing enterprises, networking among entrepreneurial development agencies, financial institutions, Government officers and business associations should be strengthened. The skill development / upgradation training schemes and marketing support schemes should be continued and they must be expanded at a higher degree to all the small manufacturing enterprises. The competitiveness of products of small manufacturing enterprises should be increased through superior quality products, efficient transportation and price control mechanisms.

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