RECEIVABLES MANAGEMENT STRATEGY BY MSME ENTREPRENEURS: A STUDY OF MSMEs IN TAMILNADU

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ABSTRACT

This research paper is based on empirical study conducted by the researcher by administering questionnaire among MSME entrepreneurs in Tamilnadu. It covers receivables management variables based on the review of literature and based on discussions had with bank managers and entrepreneurs. The latent association between these receivables management strategy and problems normally faced by MSME entrepreneurs is established statistically. The following areas are covered:

- introduction;
- review of literature;
- research methodology;
- analysis and interpretation and
- findings and conclusions

Key words:
Receivables Management- MSME Entrepreneurs- advance before supply - segmentation –discriminate groups-problems perceived
1. INTRODUCTION

The performance of Micro, Small and Medium enterprises (MSMEs) in India was focused mainly at national level, while issues like size, growth, structure and productivity were left to the States, which, though paid adequate attention to these issues, were found to be wanting. Liberalization has exposed Indian MSMEs to unequal competition with its counterparts in the industrially advanced countries. The history of funding of the MSMEs reveals that the sector has been mostly relying on self finance and debt finance through banking system. Lack of demand and shortage of working capital are the main reasons for acute and incipient sickness in both the registered and unregistered SSI sectors.

MSMEs are duty bound to run their business effectively, managing/overcoming the problems, including ensuring uninterrupted flow of finance. This is possible only if timely collection of trade receivables is effected. Receivables management is not an unique phenomenon but it is a complex issue to be addressed. Seven variables have been identified to explain the receivables management strategy.

While managing the day to day affairs of the business, MSME face problems and these problems are mainly falls under the domain of marketing, finance, human resources, operations etc.

In this background, the focus interviews held by the researcher with bank managers and MSME entrepreneurs paved the way to have an empirical study between receivables management variables and the problems normally faced by them.

2. REVIEW OF LITERATURE

There is no universally accepted definition to define a Micro, Small and Medium Enterprises. The definition is based on measures which include
employment, gross income/ sales investment, shareholder fund etc and it varies from country to country. Further, within the same country, different definitions of MSMEs prevail for different purposes. Such variations make inter-country comparison very difficult, even when data are available, according to Prasad C S.

Dr S K Jain (1971) observed that financial agencies have developed a preference of investing their funds in the medium and large scale and the bigger ones among the small scale units.

According to Pathak H N (1972) the problems are really traceable to the fundamental weakness stemming from limited understanding of some of the elementary concepts of costing.

According to the author Mathew P M (2000), existing laws often ignore the social framework within which a small entrepreneur must operate. Delayed Payment Act was passed by the Parliament after repeated representations by small entrepreneurs and their associations. But the individual entrepreneurs are reluctant to make use of the provisions of the Act for fear that customers pressed for payment may not place fresh orders.

Bala Subrahmanya, M.H. (2004) studied the impact of globalization and domestic economic reforms on small industry. Small industry has suffered in terms of growth of units, employment, output and export. But the policy changes have also thrown open new opportunities and markets for the sector.

Jan Peter (2005), stated that it was widely accepted that there existed a managerial gap in many small and medium-sized enterprises (SMEs) to participate successfully in new technologies.

Ole Henning Sorensen, Peter Hasle, Elsa Bach (2007) explored risk involved in small enterprises and ascertained how the risks have been developed from the domains of operations, finance and marketing.

SMEs should remember that strategic management is a process and not an event. Dr Sukumal Datta (2010) stated that a survey on 500 high growth firm
showed that 86% followed strategic planning. Out of those 94% reported improved profit.

Ponniah V M. and Dr. Prof. Chandra Mohan A (2011), while delivering their research paper on MSMEs at 98th Indian Science Congress, SRM University, Kattankulathur, Tamilnadu, stated that an export business, whose owner was unable to recognise the opportunity would slowly lose his capacity to take risks. It might soon get downsized to a sub-contract unit and finally, become defunct and shut down.

Review of literature helps to finalise the questionnaire to collect relevant details for studying the receivables management strategy of an MSME.

3. RESEARCH METHODOLOGY

The study is explorative in nature. Though many research studies on MSMEs have been undertaken on the liability side of a balance sheet, i.e., capital structure, own financing, challenges in obtaining institutional/bank finance etc, limited number of studies have been carried out on the asset side of a balance sheet. This study is undertaken to find out latent association of receivables management variables and problems normally faced by MSMEs.

This study involves collection of both primary and secondary data. The primary data were collected through a field survey using a structured questionnaire. The secondary data were collected through Reserve Bank of India, website, MSME website, Government of Tamilnadu website, Indian and foreign journals, Magazines and financial dailies.

Pilot study was administered on 60 MSME units located in Guindy, Maraimalainagar and Ambattur industrial estates. Based on the feedback obtained from the pilot study, necessary corrections were incorporated in the questionnaire. Cronbach’s reliability analysis was corrected out to find the validity of the questionnaire.
MSME units located in Tamil Nadu form the target population. The main study was conducted during the period from Oct 2009 to June 2010 and questionnaires were collected from 525 MSMEs located in 12 revenue districts in the state of Tamil Nadu. The peculiarity of these districts is that their municipal limits comprise maximum number of MSMEs than other districts of Tamil Nadu.

Area sampling, the most important of cluster sampling is adopted to choose the sampling elements, whereas the 12 revenue districts form the sampling units. This helps in securing homogeneity among subgroups and heterogeneity within subgroups. MSME units within each revenue district are selected based on random sampling.

Receivables Management variables as derived from the Review of Literature and based on the outcome of discussions had with entrepreneurs, Bank Managers. The Receivables Management variables used for the study are

i) Total income earned by MSMEs through top one customer
ii) Total income earned by MSMEs through top three customers
iii) Advances received before supplying the goods/ providing the services
iv) Advances received at the time of supplying the goods / providing the services
v) Credit period allowed to most of their customers
vi) receivables collected from their customers, within the credit period allowed.

vii) Doubtful Debts, as a percentage of yearly sales / income

4. DISCRIMINANT ANALYSIS TO DETERMINE THE INFLUENCE OF RECEIVABLES MANAGEMENT STRATEGY OF MSME ENTREPRENEURS ON THE PROBLEMS FACED BY MSMEs

As far as the MSMEs are concerned, the receivables management strategies have direct impact over not only the sales revenue, but also on the receivables management strategy. The predominant problems of MSMEs are found to be
useful to classify the sample units into heterogeneous groups. This classification of heterogeneous groups with different characteristic features must be justified the usage of related independent variables.

In this case, 1) a total revenue earned with one major customer (BUSONECUSTR), 2) total revenue earned with three major customers (BUSTHREECUSTR), 3) receiving part advance before supply of goods (ADVRECDDBEFORE), 4) receiving part advance at the time of supply of goods (ADVRECDSUPPLY), 5) credit period extended to the customer (CREDITALLOWD), 6) the ability to collect the receivables within the credit period (CREDITCOLLTD) and 7) the quantum of debts which are doubtful of recovery and hence to be treated as bad and doubtful (DOUBTDEBTS)– are considered as independent variables in predicting the cluster formation.

It leads to the formation of two different discriminate functions with the structure matrix

**Function 1:**

\[ Y_1 = (-) 0.975 + 0.317(BUSONECUSTR) - 0.716(BUSTHREECUSTR) \\
+ 1.565(ADVRECDSUPPLY) - 1.059(CREDITCOLLTD) + 0.419(DOUBTDEBTS) \]

**Function 2:**

\[ Y_2 = (-) 3.570 - 0.449(BUSONECUSTR) + 0.053(BUSTHREECUSTR) \\
+ 1.266(ADVRECDSUPPLY) + 0.803(CREDITCOLLTD) \\
+ 0.710(DOUBTDEBTS) \]

From these two functions, the maximum and minimum values are calculated using the different options in the questionnaire. The maximum coefficient is obtained for variable ADVRECDSUPPLY for both the functions and the minimum coefficient is obtained for variable CREDITCOLLTD for function 1 and for variable BUSONECUSTR for function 2. This shows that variable ADVRECDSUPPLY is predominant in discriminating the problems of MSMEs. Further two independent variables namely, ADVBEFORE SUPPLY and
CREDITALLOWED have not been perceived by MSME entrepreneurs as important variables in their receivables management strategy.

The sample unit is perfectly discriminated with the help of two predominant groups -with BUSONECUSTR and BUSTHREECUSTR and their proportion of total revenue with them. The function Y1 is a discriminant function for variable for BUSONECUSTR and Y2 is the discriminant function for variable BUSTHREECUSTR.

Y denotes three different clusters with less problems, moderate problems and more problems. The corresponding values are less than 1 for CLUSTER WITH LESS PROBLEM, between 1 to 2 for CLUSTER WITH MODERATE PROBLEMS, and 2 to 3 for CLUSTER WITH MORE PROBLEMS.

5 FINDINGS AND CONCLUSION

The discriminate analysis brought to construct an empirical model to explain the influence of receivables management strategy, has revealed the existence of two discriminate functions which sharply estimate the better receivables management among MSMEs. Any MSME entrepreneur may duly fill in the particulars and can find out, to which cluster, the entrepreneur belongs. That is to find out whether belonging to the cluster with less problems, or cluster with moderate problems or cluster with more problems. Accordingly entrepreneur can initiate appropriate strategy to mininise the problems which ultimately enhance the growth prospects. Further, this study will add to the body of knowledge in one of the important area of working capital, which is life blood of any MSMEs

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Profile of the Authors

V M Ponniah, Professor of Management Studies, SRM University, since 2004, is a Mechanical Engineer from Madurai-Kamaraj University, Tamilnadu and gained 25 years of corporate experience in Indian Railways and Indian Bank. He has acquired MBA (University of Madras), FICWAI (Institute of Cost & Works Accountants of India, Kolkata), CAIIB (Institute of Banking & Finance, Mumbai) and PGDFM (Annamalai University). He has presented 14 papers in various National /International Conferences. He has published 7 articles in various journals. He chaired Technical Sessions at various conferences held at Annamalai University, Annamalainagar, Velammal Engineering College, Chennai, Indian Institute of Technology, Madras, University of Madras, Chennai, and DNR College, Bhimavaram, Andhra Pradesh. Under his guidance, SRM School of Management got HSBC grant of USD 350 and USD 400 for the Financial Literacy Programme during 2008 and 2009. Acted as a Panelist on the Global Entrepreneurship Week celebrations held at SRM University, jointly with North Eastern University, Extending reach to Indian Entrepreneurship, in 2008. Acted as coordinator, for the International Conference on Global Entrepreneurship in 2007 at SRM School of Management. He has visited few East African countries viz Kenya, Rwanda, Uganda and Tanzania besides Mauritius during 2011, for promotion of various programmes being conducted in SRM University.

Dr.A.C.M Profile

Dr.A.Chandra Mohan has received his M.B.A and Ph.D., from Sri krishnadevaraya University, Anantapur, A.P. He has over 18 years of experience in teaching in different management institutions. He has been working as trainer for guiding and preparing training and management development programs. He
has organized Management Development Programs for BSNL, NTPC, ONGC.VPT and IOCL. He has also organized Police Officers’ Training Program in Tami Nadu. Dr. A.C Mohan published 25 articles in referred Journals in the area of General Management and Human Resources Management. He has presented more than 40 papers in different national and international seminars conducted by the universities and professional bodies. A.C. Mohan has been acting as a consultant for several projects. He has been serving as member of board of studies and board of examiner of several institutions and universities for M.B.A., M.HRM. M.COM., and P.G. Diploma Courses.

He has authored three books in the field of Management. He has adjudicated many Ph.Ds of different universities. He has been guiding Ph.D. Scholars. Dr. A.C Mohan has received Mother Theresa Excellence Award from International Integrity Peace & Friendship Society, Bangalore. He has also recently received Rajiv Gandhi Excellence Award. Currently he is serving as Professor of Management Studies School of Management, SRM University Chennai India.

**Formerly he served HOD of Business Studies Ibri College of Technology Sultanate of Oman** and Professor of Management in SCMS Cochin India. It has been ranked as 6th best B-School among 800 B-Schools in South India.