



[www . epratrust.com](http://www.epratrust.com)

September 2014 Vol - 2 Issue- 9

MODERN PRACTICES IN THE MANAGEMENT OF MICRO, SMALL AND MEDIUM ENTERPRISES IN KERALA

Nissar. P¹

¹Research Scholar, Department of Commerce and Centre of Research, PSMO College,
(Affiliated to University of Calicut), Tirurangadi, Malappuram, Kerala, India.

ABSTRACT

In the global scenario MSMEs have been recognised as engine of economic growth. In India MSMEs are recognised as a large source of employment after agriculture. They account for almost 40% of industrial production 95% industrial growth, 34% of exports and manufacture over 6000 products. The main objective of the study is to reveal modern management practices adopted by MSMEs in Kerala. The study reports on some findings of the survey on the current accounting and financial management practices of sample of MSMEs in Kerala. Purposive sampling method is used for conducting study. The most findings of the study are that many of the MSMEs operated with unsophisticated, simple, accounting and financial management techniques. It is proven that if MSMEs are flexible and innovative it will have considerable competitive advantage over large enterprises which enable them to respond more quickly and effectively to the dynamic global scenario.

KEYWORDS: Management; Budgetary Control; Cost Reduction; New Product Decision; Procurement Decision; ERP; Target costing; Break even analysis.

INTRODUCTION

In the global scenario MSMEs have been recognized as an engine of economic growth. In India MSMEs are recognized as a large source of employment after agriculture .They account for almost 40% of industrial production

95% of industrial units, 34% of the export and manufacture over 6000 products. It is estimated that, to achieve 10%of growth the MSMEs sector need to grow at 12%. The study tries to reveal the modern management practices adopted by MSMEs in Kerala.

Definition of Micro, Small and Medium Enterprises in India

There exist several definitions of the term small and medium enterprises (SMEs), varying from country to country and varying between the sources reporting SME statistics. The commonly used criteria at the international level to define SMEs are the number of employees, total net assets, sales and investment level. If employment is the criterion to define, then there exists variation in defining the upper and lower size limit of a SME.

The European Union makes a general distinction between self-employment, micro, small and medium sized businesses based on the following criteria

Number of employees

0	Self- employed
2-9	Micro business
10-49	Small business
50-249	Medium size business

Source: *Effective Policies for Small Business: A Guide for the Policy Review Process and Strategic Plans for Micro, Small and Medium Enterprise Development (2004)*, UNIDO and OECD,

http://www.unido.org/fileadmin/user_media/Publications/Pub_free/Effective_policies_for_small_business.pdf

In the Indian context, micro, small and medium enterprises as per the MSME Development Act, 2006 are defined based on their investment in plant and machinery (for manufacturing enterprise) and on equipments for enterprises providing or rendering services. According to the Micro, Small and Medium Enterprises (MSME) Development Act of 2006, (India) a micro enterprise is where the investment in plant and machinery does not exceed twenty five lakh rupees. A medium enterprise is where the investment in plant and machinery is more than five crore rupees but does not exceed ten crore rupees. A small enterprise is where the investment in plant and machinery is more than twenty five lakh rupees

but does not exceed five crore rupees. In the case of the enterprises engaged in providing or rendering of services, as

- A micro enterprise is where the investment in equipment does not exceed ten lakh rupees.
- A small enterprise is where the investment in equipment is more than ten lakh rupees but does not exceed two crore rupees.
- A medium enterprise is where the investment in equipment is more than two crore rupees but does not exceed five crore rupees.

According to the Ministry of Micro, Small and Medium Enterprises, recent ceilings on investment for enterprises to be classified as micro, small and medium enterprises are as follows:

Classification	Manufacturing Enterprises*	Service Enterprises**
Micro	Rs. 25 lakh	Rs. 10 lakh
Small	Rs. 5 crore	Rs. 2 crore
Medium	Rs. 10 crore	Rs. 5 crore

Source. MSME Act 2006

* Investment limit in Plant & Machinery

** Investment limit in equipments

Modern management practices accompanied by Information Technology or internet enabled environment helps in fast and accurate decision making by the MSMEs. Here the Modern management practice is the evolution from simple to complex. It helps MSMEs to increase speed of services, access to information, empowering employees in terms of skill and delivering highest valued services at competitive cost, raising productivity, controlling cost, working remotely and fast and accurate decision making. The study entitled "modern management practices in MSMEs in Kerala" is an attempt to understand whether MSMEs are in track of Modernisation of management of business activities.

REVIEW OF LITERATURE

Some of them related literature reviews available in this area of study are:

Sayed Mozaffer Mirbargkar (2009) through the study entitled **Innovation in Management Techniques of Small Enterprises** presented changing perspectives on managerial techniques of small enterprises in south India. The most important findings of the study are that the many SEs operated with innovative accounting and financial tools.

Upadhyaya Pallavi (2012) through the study **Perception and Adoption of B2B Electronic Marketplace: A Case Study of Manufacturing MSMEs** conducted in Karnataka state of India reveals the factors that influence the adoption of B2B e-marketplaces by MSMEs. It assess the services of the B2B e-marketplace used by the MSMEs and it is observed that it has increased competition among MSMEs in Karnataka.

STATEMENT OF THE PROBLEM

The last 25 years has witnessed a lot of new practices especially in the area of accounts and finance. Now a day's most of the enterprises have gone through the line of modernisation in order to avail the competitive advantage. Stiff competition due to globalization forced MSMEs to adapt with the changing environment. The study aims at understanding what do the MSMEs perceived about the modern management practices and whether the MSMEs are fruitfully using these practices or not.

OBJECTIVE

The objective of the study is to analyse modern management practices among MSMEs in Kerala.

METHODOLOGY

The study is a descriptive one based on both primary and secondary data. The primary data are collected through structured interview

schedule from selected 30 MSMEs in Kerala. These 30 samples are selected from micro, small and medium enterprises equally. The sample frame for the study is 22.13 lakh MSMEs in Kerala. Since the population is large in size, sample survey method is used. For selecting samples purposive sampling method is used.

ANALYSIS AND DISCUSSION

This study conducted among MSMEs in Kerala. The study was based on an interview schedule. Of these samples (Table 1) 18 firms are selected from manufacturing and 12 firms are from service sector respectively.

Table 1 – Sample Firms

Category	Sample	Manufacturing	Service
Micro	10(33.33%)	7(23.33%)	3(10%)
Small	10(33.33%)	6(20%)	4(13.33%)
Medium	10(33.33%)	5(16.67%)	5(16.67%)
Total	30(100%)	18(60%)	12(40%)

Source: Primary data

In this section four area of observation is analyzed for understanding modern management practices in MSMEs in Kerala: adoption of new accounting ideas, seeking external advices, cost management techniques used, and financial techniques adopted are analyzed.

Adoption of New Accounting Strategies:-

From the analysis of the tables 2 to 5 reveals that most of the MSMEs in manufacturing units are using accrual system of accounting and 67% of service sector depend cash system of accounting. Hybrid system of accounting is not popular among MSMEs. With regards to methods of maintaining books of accounts 89% of manufacturing enterprises uses computerised accounting, but still majority of service sector (67%) are in the line of manual accounting. Most of the MSMEs are using readymade software packages for accounting purpose. While consider mode of reporting of accounting information, MSMEs walks through

the traditional method of annual meeting. So it can be observed that some MSMEs are adopting modern management practices even though majorities are in line of traditional system.

Table 2 – Accounting System Used

Type	Cash system	Accrual System	Hybrid	Total
Manufacturing	2(11%)	12(67%)	4(22%)	18(100%)
Service	8((67%))	4(33%)	0	12(100%)

Source: Primary data

Table 3- Methods of Maintaining Books of Accounts

Type	Manual Accounting	Computerised Accounting	Total
Manufacturing	2(11%)	16(89%)	18(100%)
Service	8(67%)	4(33%)	12(100%)

Source: Primary data

Table 4- Software Used for Accounting Purpose

Type	Readymade Packages	Specially Designed	ERP packages	Total
Manufacturing	12(75%)	3(19%)	1(6%)	16(100%)
Service	4(100%)	0	0	4(100%)

Source: Primary data

Table 5- Mode of Reporting Accounting Information

Mode of Reporting	Manufacturing	Service
Annual Meeting	9(50%)	5(42%)
By Post	3(17%)	3(25%)
Website	1(6%)	0
E-mail	5(27%)	4(33%)
Total	18(100%)	12(100%)

Source: Primary data

External Advice:-

While considering the source and purpose of seeking advice, table 6 and 7 reveals that majority micro and small scale MSMEs seek advice from external source mainly for income tax and legal matters. Majority of medium enterprises are utilizing their own staff for getting advice. The main purpose of seeking

external advice is for getting legal advice. Medium enterprises are occupying sufficient staff for providing information for taking decision. That may be the reason for not depending external source for getting advice in area of finance and income tax.

Table 6- Source of Seeking Advice

Category	Expert From Outside	Own Staff	Total
Micro	8(80%)	2(20%)	10(100%)
Small	6(60%)	4(40%)	10(100%)
Medium	3(30%)	7(70%)	10(100%)

Source: Primary data

Table 7- Purpose of Seeking External Advice

Category	Legal (Weighted Avg.)	Financial Matters (Weighted Avg.)	Income Tax (Weighted Avg.)	Total
Micro	27%	17%	56%	100%
Small	35%	23%	42%	100%
Medium	62%	17%	21%	100%

Source: Primary data

Cost Management:-

One of the most relevant observations is related with use of cost information. As far as the decision making is concerned, cost element has vital role in globalised and competitive era. Table 8 reveals that majority of organizations relatively use cost information for limited purpose. MSMEs use cost information mainly for taking decision

regarding procurement of raw material. Cost reduction and new product decision has less relevance in utilizing cost related data. Though it can be observed that while comparing with past history of MSMEs now a day are using cost information for various purpose like budgetary control, cost reduction, new product decision etc.

Table 8- Use of Cost Information

Use of Cost Information	Micro	Small	Medium
Budgetary Control	18%	19%	13%
Price Fixation	29%	24%	31%
Cost Reduction	11%	9%	15%
New Product Decision	10%	13%	7%
Procurement Decision	32%	35%	34%
Total	100%	100%	100%

Source: Primary data

Financial Techniques:-

In terms of particular financial techniques (Table 9), profit/sales is the main criteria for taking financial decision by micro small and medium enterprises. The use of

breakeven techniques is mainly used by medium sized enterprises. Micro small and medium enterprises also use budget variance and target costing as a part of taking financial decision.

Table 9- Use of Financial Techniques

Financial Techniques	Micro	Small	Medium
Break even	9%	11%	19%
Profit/ sales	65%	69%	41%
Budget Variance	15%	8%	17%
Target Costing	11%	12%	23%
Total	100%	100%	100%

Source: Primary data

CONCLUSION

From this analysis it is observed that MSMEs are tuning their style of operation in order to become competent in the globalised scenario by using modern management practices especially in the field of accounting

and finance. Both manufacturing and service sector using accrual system of accounting. It may be due to the large volume of cash sales, majority of service sectors prefer cash system of accounting. Manufacturing MSMEs are

widely applying computerised accounting. Even though majority of them depending ready made packages, some manufacturing units accepted ERP packages also. MSMEs are seeking advice from expert in area of income tax, finance and legal matters. MSMEs are using cost information for various purposes like budgetary control, cost reduction and new product decision. Financial techniques like Break even, Budget Variance, and Target Costing have considerable role for taking financial decision in MSMEs. In short it is found that many MSMEs are operated with unsophisticated tools, indeed simple accounting and financial management procedures.

REFERENCE

1. *MSME Act 2006*
2. *Economic census 2005*
3. *Statistical Data from District Industry Centre Malappuram*
4. *Southern Economist December 15, 2009, Volume 48, Number 16*
5. http://www.unido.org/fileadmin/user_media/Publications/Pub_free/Effective_policies_for_small_business.pdf
6. <http://www.dcmsme.gov.in/ANNUALREPORT-MSME-2012-13P.pdf>

