A Study of Association between Financial Performance and Size of Small and Medium Scale Industries in Mysuru and Bengaluru Region

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ABSTRACT

Small and Medium sized Enterprises (SMEs) are diverse in nature and enterprise structures ranges from proprietorship to group of people and engage in manufacturing/service activities. The questionnaire was developed and measured by using a five point Likert scales ranging from strongly disagree to strongly agree. One-way ANOVA and Chi-square tests are used to examine the relationship and influence between financial performance and size of small and medium scale industries. The results revealed that as the size of SME’s increase, the financial performance of SME’s also increases. Further it shows that large sized SME’s have exhibited better financial performance.

Keywords— Financial performance, Size, Small and Medium sized Enterprises (SMEs).

I. INTRODUCTION

Small and Medium sized Enterprises (SMEs) are diverse in nature and enterprise structures ranges from proprietorship to group of people and engage in manufacturing/service activities. SME’s structure does not contain more layers and is almost horizontal. Definition of SMEs varies from country to country. They are classified according to size, shape, annual turnover and capital. In India, the enterprises have been classified based on their investment in plant and machinery for manufacturing enterprises and on equipment for enterprises providing or rendering services. The Government is conscious of the role and importance of small and medium scale industries in strengthening our economic performance and is therefore committed to putting in place a policy framework that would address the problems of this sector and help it become internationally competitive. SME’s encourages growth of local entrepreneurship and helps to influence the standard of living of people [1]. The objective of the research is:

1) To find the significance of financial performance and size of small and medium scale enterprises using One-Way ANOVA
2) To study the association between financial performance and size of small and medium scale enterprises using Chi-Square test

Research hypothesis: The following null hypothesis is formulated and tested.

- The size of SME’s and their financial performance are not dependent on each other.

II. REVIEW OF LITERATURE

De Koek and Uhlaner [2] revealed that firm size has an impact on formalization of human resources. Also firm size is positively related with the probability that human resource department is present, which encourages formality of human resources policies and practices.

Robert [3] examined training and development, compensation, benefit packages and selective staffing in small manufacturing companies of South-eastern USA. He found that training helps to increase the company profits. He also found that by adopting good human resource management practices small businesses can observe low employee turn-over. According to him recognizing and honouring the employees leads to organization success.

Bernice and Alison [4] studied training practices in micro, small and medium firms in Queensland, Australia. They identified that human resource management practices increases with firm size. Documentation and administrative processes increase with the increase in employees.
Nguyen and Bryant [5] conducted a study on the association between firm size, HR formality and performance in Vietnamese SMEs. They found that among SMEs, larger firms are more likely to adopt formal human resource (HR) practices and that the formality of HR practices is positively associated with the firm’s performance.

Bernice and Peter [6] discussed the relationship between the size of the firm and adoption of human resource management practices in Australia. They found that formal recruitment sources, formal selection process becomes predominant as the size of the firm increases.

Manjari and Neharika [7] observed the level of formalisation of human resource management in small and medium enterprises in India. They explored that the performance of SMEs increases with regular standard policies and procedures. The level of formalization was found to be low in small firms and owner-managers played a crucial role in human resource functions. They found that level of formalization is high in medium firms and also with increase in employee strength.

III. METHODOLOGY

The data was collected through a specially designed questionnaire administered to the owners/managers of manufacturing small and medium scale enterprises located in Mysuru and Bengaluru region. Questionnaire covered questions on financial performance of SME’s and number of employees working in the organization which is classified as less than 10 employees, 11 to 25 employees, 26 to 50 employees and more than 50 employees. All questions framed were closed ended type with a five point Likert scales ranging from strongly disagree to strongly agree.

IV. RESULTS AND DISCUSSIONS

a) One-Way Analysis of Variance (One-Way ANOVA) is carried out to determine the mean scores of the respondents on financial performance of SMEs. Table 1 presents the results of analysis of variance.

Table I
ANOVA - Size and Financial Performance of SMEs

<table>
<thead>
<tr>
<th>Size of SMEs</th>
<th>Respondents</th>
<th>Financial performance of SMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>%</td>
<td>Mean</td>
</tr>
<tr>
<td>Less than 10 employees</td>
<td>80</td>
<td>20.8</td>
</tr>
<tr>
<td>11 to 25 employees</td>
<td>131</td>
<td>34.1</td>
</tr>
<tr>
<td>26 to 50 employees</td>
<td>144</td>
<td>37.5</td>
</tr>
<tr>
<td>More than 50 employees</td>
<td>29</td>
<td>7.6</td>
</tr>
<tr>
<td>Total</td>
<td>384</td>
<td>100</td>
</tr>
</tbody>
</table>

Table I shows the mean difference scores between the size of SMEs and their financial performance. It is seen that 20.80% of the respondents are from the SMEs having less than 10 employees, followed by 34.10% of the respondents from SMEs having more than 11 but less than 25 employees. 37.5% of the respondents from SMEs having more than 26 but less than 50 employees where as only 7.60% of the respondents are from the SMEs having more than 50 employees. The analysis of variance shows that there is a significant difference in the mean scores among the respondents on financial performance of SMEs. The mean score ranged from 2.76 to 4.00 and it is higher among the respondents from the SMEs having more than 50 employees.

A mean value of 3.96 and 4.00 reveals that the respondents from the SMEs of more than 25 employees are significantly satisfied with the financial performance in comparison with SMEs of other sizes.

b) Chi-Square test was conducted to study the association between size of SMEs and financial performance of SMEs and the results are presented from table 2.

Table II
Association between Size of SMEs and Financial Performance of SMEs
Table II shows the association between size of SMEs and financial performance of SMEs and results are presented as follows:

The expected frequencies are given in the parenthesis of the above table.

\[
\chi^2 \text{ Value: } 68.206^* \quad \text{D.F: 12} \quad p = 0.001
\]

As the \( \chi^2 \) value is statistically significant, the null hypothesis which states that the size of SMEs and their financial performance are not dependent on each other is rejected. Hence, it is imperative that the size and financial performance of SMEs are dependent on each other.

Further, as the observed frequencies (i.e. agree and strongly agree frequencies) are higher than the expected frequencies among SMEs having more than 25 employees, it is inferred that the respondents from the SMEs having more than 25 employees are significantly satisfied with the financial performance of SMEs in comparison with other groups having less than 25 employees.

V. CONCLUSION

The analysis of variance shows that there is a significant difference in the mean agreeability scores on financial performance of SMEs. The respondents from the SMEs of more than 25 employees are significantly satisfied with the financial performance in comparison with SMEs of other sizes. The Chi-square test reveals that there is an association between financial performance and size of small and medium scale enterprises. It is also concluded that as the size of SMEs increase, the financial performance of SMEs also increase. Further it is concluded that large sized SME’s have exhibited better financial performance.

REFERENCES