"Study on Government Policies and Regulation Factors which are Affecting the Performance of SME's (Manufacturing)"

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Abstract: The small and the medium enterprises (SME's) sector play a pivotal role in the overall economy of the country, besides contributing significantly towards the employment generation and exports. To compete in the global market, implementing cutting edges and state of the art technologies are essential. SME's located in tier 1 cities are having better access to such technologies when compared to SME's of tier 2 cities like Hubli-Dharwar, Belgaum (Karnataka, India). This work is carried out to identify thefactor influencing performance and to create interest amongst the entrepreneurs. This study attempted to identify the government factors such as frequent change in tax policies, Regulatory issues, Rules and Procedures and their impact on performance of small and medium manufacturing enterprises (SME's) in Hubli-Dharwar region.
A well-structured questionnaire was used to capture the relevant data needed for analysis and identification of factors. Statistical package for the social sciences SPSS was used to analyse the dataset and test the various hypotheses. It is for the concerned stakeholders to focus on this factor on priority basis to enable SME's to reach their full potential.
Keywords:SME's, Adaptation, Pearson correlation, Descriptive analysis, multiple regression analysis.

I. Introduction

SMEs are vital and of paramount importance in the development of any country especially for a developing country like India.Small and Medium Enterprises (SMEs) play a pivotal role and can be considered as the back bone of national economy (Peters and Waterman, 1982; Amini, 2004;Radam et al., 2008). Research studies have also shown that firms can improve their production capacity and can also perform well if the government policies remain stable because frequent change in tax policies, Rigid government policies, Improper inspection methods of government regarding final product of SME's, Regulatory issues etc have made the entrepreneur unhappy regarding their own industries this had affected the SME development hence this study has focused on such government policies and regulating factors that have negative impact on small and medium enterprises. Even though government has provided good policies for SME's development but due to unstable government and frequent changes in the taxation has hampered SME's growth.

II. Literature review

1.Government policies: The Government of India has enacted the Micro, Small and Medium EnterprisesDevelopment (MSMED) Act, 2006 on June 16, 2006 which was notified on October 2,2006. The ministry of MSME came into being from 1999. A credit liked capital subsidycheme was launched. The exemption limit for relief from payment of central excise duty was raised. A market development assistance scheme for MSMEs was introduced. Consolations were held with stakeholders and the list of products reserved for production in the SME sector was gradually reduced each year.

2. Hypothesis

H1=There is positive relationship between improvement in inspection method will improve the firm's performance.
H2=There is positive relationship between reduction in lack of education with the improvement in firms performance.
H3=There is positive relationship between improvement in product legal proceedings with improvement in firm's performance.
H4=There is positive relationship between flexibilityin rules and procedure with improvement in firm's performance.
H5=There is positive relationship between unchanged taxpolicies on firms performance.
H6=There is positive relationship between improvement in government policies will improvement the firm's performance.
H7=There is positive relationship between flexibility in regulatory issues with improvement in firm's performance.

H8=There is positive relationship between reductionin bureaucracy withimprovement in firm's performance.

3. Notations Used

IM: Inspection method.
LE: Lack of education about rules and regulations.
PL: Product legal proceedings.
FC: Frequent change in tax policies**.**
RG: Rigid government policies.
RI: Regulatory issues.
These notations were used throughout the analysis.

RP: Rules and procedure.
B: Bureaucracy.
FP: Financial performance.
PMP: Product market performance.
OP: Organisational performance (that is outputincludes FP and PMP)

III.   Methodology

Descriptive study was carried out to ascertain the implication of each independent factor towards the performance of SMEs in Hubli-Dharwad region. A total of 150 sets of questionnaires were personally given to the randomly selected SMEs (manufacturing) industry all over HUBLI-DHARWARD.

The questionnaire consisted of 34 questions. All of the questions will be linked in Likert scale of 1 until 7with 1 as strongly disagree and 7as strongly agree. According to the DIC reportDharwadSMEinfo, there are 924 registered units up till (2010-11). Which are categorized into different business sectors.This research narrowed down the focus on 322 Manufacturing industries (include Agro Based, Metal based (steel fab.)&Engineering units) which comprise of 35% of all business sectors. Among the 150 sets of questionnaires that were distributed randomly to the SMEs in the manufacturing industry, there was a successful return of 128 sets. Nevertheless, only 100 sets were usable due to 28 sets of incomplete questionnaires.
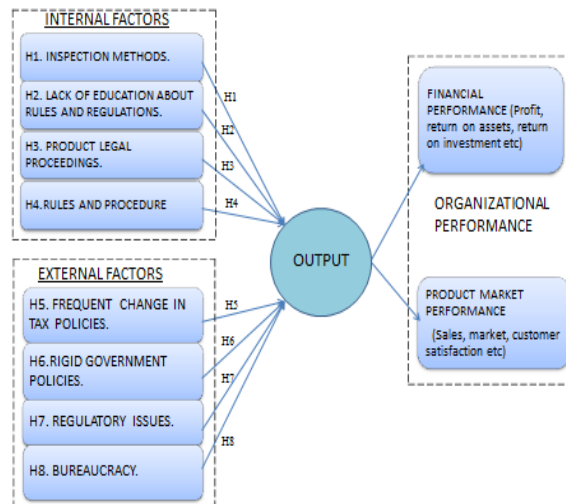
IV.   Proposed Research Model

Figure1: Research Model

V.   Results and Discussions

1.Descriptive Statistics and Normality Test

Table:1

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
IM	100	2.25	7.00	5.2675	1.40627	-.658	.241	-.528	.478
LE1	100	2.00	6.67	5.0300	1.32327	-.749	.241	-.422	.478
PL	100	1.25	7.00	4.8725	1.17341	-.598	.241	.364	.478
FC	100	2.00	7.00	5.5200	1.22206	-1.005	.241	.588	.478
RG	100	1.50	6.75	4.9575	1.15582	-.855	.241	.504	.478
RI	100	1.50	7.00	4.9250	1.54458	-.914	.241	-.101	.478
RP	100	1.67	7.00	5.3733	1.26445	-.725	.241	.313	.478
B	100	2.00	6.67	5.0933	1.15088	-1.104	.241	.639	.478
FP	100	2.50	6.75	5.3775	1.14399	-1.213	.241	.457	.478
PM	100	1.75	7.00	5.2100	1.31508	-1.163	.241	.692	.478

Table 1 display the mean, standard deviation, maximum and minimum values of dependent and independent variables and also the values of skewness and kurtosis for all the independent and dependent variables of this research. Firstly, the results exhibit that the value of skewness for all the variablesranges from -1.213 to -0.598. In contrast, the kurtosis for all the variables is ranging from -0.528 to 0.692. Based on the result, it is clearly shown that all the independent variables and dependent variables are acceptable in terms of normality. This is because the value of skewness and kurtosis for all the variables conform to the rule of thumb where all the value is less than two and seven respectively (West, Finch & Curran, 1995).

2. Reliability Analysis
Cronbach's Alpha is the coefficient of reliability to check the internal consistency of variables. The scale was tested for reliability by using Cronbach's Alpha.

Table:2

Variables	Construct	Cronbach's alpha	Number of items
Over all value for all independent variable	Inspection method, Lack of education about rules and regulations, Product legal proceedings, Frequent change in tax policies, Rigid government policies,Regulatory issues, Rules and procedure and Bureaucracy.	0.941	26
Over all value for dependent variable	Financial performance and Product market performance.	0.903	8

Armstrong and Foley (2003) suggested that "the closer Cronbach's alpha is to 1.00, then, the more reliable the scale". Nunnally et al., (1994) also stated that a value for Cronbach's alpha coefficient greater than 0.60 is considered acceptable. This rule of thumb is further supported by Ferketich (1991) who recommended that corrected item-total correlations should range between 0.30 and 0.70 for a good scale. In conclusion, all reliability coefficients as shown in Table2 have exceeded the minimum acceptable level of 0.60 as suggested by Nunnally et al., (1994) and Ferketich (1991). Therefore, this indicates that the items used in the construct are reliable and consistent.

3.Demographic profile of respondents

Table:3

Category	Number	Percentage
Age		
25-35 years	27	27%
36-45 years	35	35%
46-55 years	31	31%
56-65 years	7	7%
Above 65 years	0	0%
Education		
Diploma, NTTF and Others	48	48%
Under graduate	40	40%
Post graduate	12	12%
Doctorate	0	0%
Designation		
Junior supervisor(worker)	5	5%
Supervisor	11	11%
Manager	33	33%
GM/MD/Owner	51	51%
Type of organisation		
Small	53	53%
Medium	47	47%
No of employees in industry		
1-50	65	65%
51-100	32	32%
101-201	3	3%
201-500	0	0%
Above 500	0	0%
Total respondents	100	100

As can be seen in Table 3 Majority of the respondents that are (35%) are in the age bracket of 36 to 45 years and another (31%)are in the age bracket of 46 to 55 years. As regards their education, the vast majority of the respondents (48%) are Diploma, NTTF, GTTCholdersfollowed by (40%) degree holders. Most of the

respondents (51%)are holding General manager , Managing director and Owner positions in the current organization.Nearly (53%) organizations visited have scaled them self as a small organizations. (65%) of the organizations has their employee strength between the range of 1-50.

4.Karlpearson's Correlation Analysis

Correlation provides answer to three basic questions about two variables or two sets of data in a search. First it tells whether there is any relationship between two variables and if so, what are the direction of relationship and subsequently, the magnitude of the relationship.

Table:4

		OP	IM	LE1	PL	FC	RG	RI	RP	B
Pearson Correlation	**OP**	1.000	*	*	*	*	*	*	*	*
	IM	.708	1.000	*	*	*	*	*	*	*
	LE1	.749	.638	1.000	*	*	*	*	*	*
	PL	.679	.530	.713	1.000	*	*	*	*	*
	FC	.717	.512	.638	.567	1.000	*	*	*	*
	RG	.749	.622	.747	.616	.552	1.000	*	*	*
	RI	.559	.555	.592	.513	.561	.646	1.000	*	*
	RP	.765	.466	.718	.591	.558	.732	.497	1.000	*
	B	.728	.576	.579	.502	.651	.691	.613	.639	1.000
Sig. (2-tailed)	**OP**	.								
	IM	.000	.							
	LE1	.000	.000	.						
	PL	.000	.000	.000	.					
	FC	.000	.000	.000	.000	.				
	RG	.000	.000	.000	.000	.000	.			
	RI	.000	.000	.000	.000	.000	.000	.		
	RP	.000	.000	.000	.000	.000	.000	.000	.	
	B	.000	.000	.000	.000	.000	.000	.000	.000	.
N	**OP**	100								
	IM	100	100							
	LE1	100	100	100						
	PL	100	100	100	100					
	FC	100	100	100	100	100				
	RG	100	100	100	100	100	100			
	RI	100	100	100	100	100	100	100		
	RP	100	100	100	100	100	100	100	100	
	B	100	100	100	100	100	100	100	100	100

Correlation is significant at the 0.01 level (2-tailed)

According to Hair, Black, Anderson and Tatham (2006), the correlation coefficient between each pair of independent variables in the Karl Pearson's correlation should not exceed 0.90. This is because the data may be suspected to have serious collinearity problem if the correlation value exceeds 0.90 (Hair et al., 2006). In Table, the highest correlation coefficient is 0.765 which is between the Rules and procedure and Organizational Performanceand is still less than 0.90. Hence, it is assumed that there is no multicollinearity.

5.Multiple Linear Regression Analysis

The Multiple Linear Regression Analysis reported that the coefficient of determination R square = 0.818 which indicates that 81.8 % of the variation in the dependent variable can be explained by all the independent variables in this research.

Based on the summary of analysis of variance (ANOVA), it is found that F statistic is at 51.130. This shows that there is a statically significant relationship between the set of nine variables. The findings also show that all the eight independent variables are significant related to the dependent variable organizational performance (which includes both financial performance and product market performance)and five independent variables meet the rule of thumb where the p-value is less than 0.10. The independent variable Inspection method, Product legal proceedings, Frequent change in tax policies, Rules and Procedures and Bureaucracyhave most influence on the Organizational Performance at the coefficients of correlation (beta) of 0.244, 0.133, 0.207, 0.326 and 0.137 respectively. In a nutshell, this model can significantly represent the relationship of independent variables with the dependent variable that is organizational performance.

Table:5

Model		Unstandardized coefficients		Standardized Coefficients	t	Sig
		B	Std. Error	Beta(β)		
1	(Constant)	-.228	.285		-.801	.425
	IM	.244	.049	.289	4.926	**.000**
	PL	.133	.062	.132	2.136	**.035**
	FC	.207	.062	.213	3.319	**.001**
	RP	.326	.060	.348	5.420	**.000**
	B	.137	.071	.133	1.935	**.056**

Dependent Variable: OPThen, an unstandardized coefficient linear equation is formulated:

5.1 Equation
OP= -0.228+0.244IM+0.133PL+0.207FC+0.326RP+0.137B
Where, R^2= 0.818
N = 100
OP = Organizational Performance
IM = Inspection method
PL = Product legal proceedings
FC = Frequent change in tax policies
RP = Rules and procedures
B = Bureaucracy
By evaluating the unstandardized coefficients linear equation formed above, it is found that each independent variable has varied relative importance of with the dependent variable.

5.2Results for hypothesis testing

SL.No	Hypothesis	Link in model	p-value	Remarks
1	H1	IM → OP	**.000**	Supported
2	H3	PL → OP	**.035**	Supported
3	H4	RP → OP	**.000**	Supported
4	H5	FC → OP	**.001**	Supported
5	H8	B → OP	**.056**	Supported

Hypothesis H2, H6, & H7 are rejected because they termed to be non-significant (P*< 0.10 Significant)

VI.   Obtained Research Model
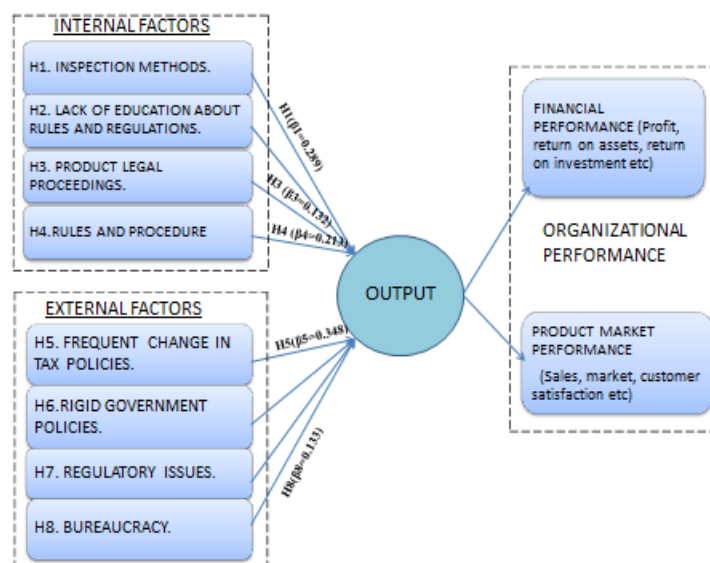
Figure 2: Obtained Research Model

VII.   Conclusion and Discussion

The result shows that both internal factors and external factors showed significant positive relationship towards growth of organizational performance key internal factors such as Inspection methods, Product legal proceedings and Rules and Regulations in the industry should be well structured, prepared in order to have good product market performance and financial performance these factors are in turn linked with the government policies. similarly key external factors such asFrequent change in tax policies and Bureaucracy will also have a significant positive affect on the output performance of SME's hence the government policies and regulation factors will directly or indirectly have confined affect on SME's performance especially the industries in the Hubli-Dharwad regions are affected due to this factors and this will de motivate new entrepreneurs to start up with their new business, industries. Hence the SME'S in this particular region are throwing light on these factors.

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