

Financial and accounting problems faced by the entrepreneurs of Zuangtui Industrial Estate in Mizoram

Lallawmzuali Chhakchhuak

Research Scholar, Department of Commerce, Mizoram University, Mizoram

Dr.Lalneihluangi Fanai

Assistant Professor, Department of Commerce, Mizoram University, Mizoram

Abstract

Industrial estates are set up to promote the growth and development of small industries by providing various common facilities such as land, factory building, transport, water etc. In India, the Industrial Estate programme was adopted during the First Five Year Plan period. Small industrialists are facilitated to survive in the competition faced with large industries; setting up of industrial estates also enables small industrialist to have more contribution in the economy of the country. The paper is based on the study performed at Zuangtui industrial estate, Aizawl, the biggest estate in the state of Mizoram, which is one of the industrially backward states in India. The performance of these small and cottage industrial units are not up to the mark. They are lagged behind as compared to the performances of the industries in the industrialised states of the country. The paper tries to elaborate the problems faced relating to finance and accounting in the functioning of their business. It also tries to highlight the impacts of Covid 19 pandemic to the entrepreneurs.

Introduction

India is a developing country and is one of the fastest growing economies in the world. Manufacturing industries contributes alot for the development of a country's economy. Industries help in raising the standard of living by increasing the per capita income and at the same time improve balance of payment positions of a country as a whole.

Colney (1995) mentioned that the quick and lasting development strategy of the rural areas is sure to be 'industrialisation' and since the people are poor, Small Scale and Cottage industries would be appropriate for their upliftment. He also stated that there has been a growing emphasis on the rural industrial development as a means to tackling the problems of economic stagnation, poverty, unemployment and even under employments.

Although industrialisation is the key to economic development and progress, setting up industry is not easy even for interested persons the reasons of which are lack of finance, land, funds, infrastructure etc. To promote industrialisation in the rural as well as urban and to help small entrepreneurs to set up industries by providing factory accommodation, land and common facilities required, a programme of industrial estate is introduced. It provides an organisational set up in which the Industries flourish and develop and has even become an effective tool for rapid industrialisation. They are regarded as an effective technique for promotion, expansion, up-growth, and development of industrialisation.

Industrial Estate is to provide the basic infrastructure for the development of the area. It is a method of organising, housing and servicing industry for an orderly development. Setting up of industrial estate is an attempt to provide, on a rental basis, good accommodation and other basic common facilities to groups of small entrepreneurs who would otherwise find it difficult to receive these facilities at a reasonable price (CSV Murthy 2003). According to P.C Alexander (as cited in Patnaik & Acharya, 2006), "An industrial estate is a group of factories constructed on an economic scale in suitable sites with facilities of water, transport, electricity, steam, bank, post-office, canteen, watch and ward, first aid and provided with special arrangements for technical guidance and common service facilities".

Although industries have great contributions in a country's economy, for many entrepreneurs, financial problems create barrier for the success of setting up industries, small or big. Finance is the key component for running a business and is often said as lifeblood of business. In the real sense, it is a finance/money that enables an entrepreneur to bring together raw materials, land, machinery and human capital in order to have production. Lack of adequate financial support and credit has always been a major problem of Small Scale Industrial units in

India (Kalyani & Kumari, 2013) Lack or insufficiency of finance is a common problem especially for small businesses. Inadequacy of finance makes a business stand still; extension of business is not possible without sufficient financial resources. One of the most common reasons of shutting down of a business is lack of finance to continue the business. Loans given by banks and financial institutions are the safeguard for some units, anyhow there are some who are not making use of these institutions due to lack of security, ignorant about the financial resources available to them etc.

Mizoram is a state located in the North East India with Aizawl as its capital city. Within the north eastern region of India, it is the southernmost landlocked state, and thus geographically remote. Lalhunthara (2012) mentioned that the disadvantages due to topographical and geographical condition of the state coupled with underdeveloped infrastructure and transport bottlenecks are the main hurdles for the first generation entrepreneurs of the state to move towards industrialisation. Mizoram was earlier part of the state of Assam, in 1972 it is declared as an Union Territory and got its statehood only in 1987 to be the 23rd state of India. As the state is not mature enough, the economy of the state also greatly depend upon the funds from Central government. Compared to other states of the country, Mizoram does not contribute much in terms of industry and production. Although, industrialisation has reached the state, its development cannot grow fast. The state of Mizoram has been recognised as an industrially backward state. One of the main reasons is due to poverty and lack of finance and accounting knowledge.

By April 1989, the Industry Department, Government of Mizoram announced its Industrial Policy with some incentives/subsidy schemes. This Industrial Policy has been implemented along with the 8th Five Year Plan (Colney, 2014). And then, the Department of Commerce & Industries, Govt. of Mizoram was formed in the year 2016 by amalgamation of Department of Trade and Commerce and Department of Industries (Trade & Commerce, 2020)

The Mizoram Industrial Area (Management, Regulation & Control) Act 2008 was implemented by the Govt. of Mizoram. Under this Act, there are 13 declared industrial areas in Mizoram. Among those, Industrial Estate Zuangtui, Aizawl is the largest in terms of number of

industrial units with total units of 180 due to which it is selected for the present study. The area is divided into 2 (two) blocks, where Block I and Block II has 68 units and 112 units respectively. The total land area is 314.70 bigha or 421168.30 sq.m (Directorate of Commerce & Industries). Zuangtui is located in the northeastern outskirts of Aizawl, the capital city of Mizoram. The largest number of enterprises in this industrial estate is handloom; other enterprises include food processing, wooden, plastic, oxygen cylinders, steel & metal, rubber & tyre retreads.

Review of Literature:

Colney (1995) in his study of industrial development in Mizoram mentioned that while poverty is prevailing, there is lack of capital, technical knowledge, etc., which are the pillars of industrial establishments. Therefore, either large scale or medium scale industrial units cannot be expected at the private levels. Rather, the Small Scale and Cottage Industries are very much suited as they require less capital, less technical training, etc.

Murthy (2003) stated that finance is made available to entrepreneurs by the financial institutions, which have been built up by the Government as a network of special financial institutions with a fairly big capital base to provide financial assistance to all type of industries, including small scale industries.

Krishna (2009) stated availability of capital is the most important factor for the establishment of an enterprise.

Rocca et al. (2009) The growth of small and medium-sized firms, i.e., those most vulnerable to information and incentive problems, is often constrained by the lack of access to external finances.

Ackah & Vuvor (2011) It is in the interest of financial institutions to ensure that the economy is growing efficiently by playing an intermediary role between suppliers and lenders of funds in any economy by gathering surplus funds in the economy and then lending these funds to those who need them.

Lalhunthara (2012) stated the industrial areas though not fully provided with required infrastructure are expected to solve many of the problems of industrial units.

Husin & Ibrahim (2013) SME need assistance in accounting services to help them more into their financial strength in order to provide a better understanding of their financial position.

Kalyani & Kumar (2013) Major problem faced by most of the SME respondents was in raising money for a business was the delay in getting loans.

Jeyaseeli & Justus (2014) mentioned that Financial Management is the key factor which determines whether a business will be successful over the long term.

Yildirim et al. (2015) SMEs cannot provide enough credits from financial institutions due to high interest rates, heavy guarantee requirements, short loan maturity and insufficient amount of credit. Since they are reluctant to take risks, banks sometimes demand guarantee much higher than credit.

Zotorvie (2017) concluded in his study that majority of SMEs did not keep proper accounting records pertaining to their business. The major reasons for the entities failure to maintain proper accounting records and prepare a complete set of financial statement were high cost of hiring qualified accountants and lack of accounting knowledge on the part of some owner-managers.

Lalremruati & Fanai (2018) mentioned that the food and grocery shop owners of Mizoram do not go beyond basic products of banking services such as savings bank account, withdrawing and depositing cash, passbook, cheque book, ATM cards.

Lalrinsangi & Fanai (2020) in their study of record keeping practices of micro enterprises in Lunglei, Mizoram found out that majority of the micro enterprises failed to keep complete records of financial transactions as they lack technical skills and expertise. Also, they lack proper understanding of the necessity to maintain proper books of accounts.

Objectives:

The following are the objectives of the study:

- 1) To identify the financial and accounting problems of the entrepreneurs of Zuangtui industrial estate, Mizoram
- 2) To suggest measures to overcome the problems.

Research Design/Methodology:

The study attempts to examine the financial and accounting problems faced by the entrepreneurs of Zuangtui industrial estate, Aizawl. In this estate, the number of industrial units that are actively functioning is around 50. As different industrial sectors such as handloom, food processing, wooden, plastic, oxygen cylinders, steel & metal, rubber & tyre retreads are run in the estate, Stratified Random Sampling method was used so as to cover every industrial sector functioning in the estate. The sample size was 40. Primary data was collected from the entrepreneurs through personal interviews and structured questionnaires. Secondary data was also collected from the Department of Commerce and Industries, Govt of Mizoram and from relevant data available from books, thesis, and articles and from the internet sources.

Result and discussion:

Sample size of 40 was taken which comprises of different types of industries as below:

Table 1: Types of industries

S.No	Type of industry	Number of sample units
1	Handloom	24
2	Oxygen	1
3	Furniture	4
4	Food	3
5	Steel Metal	3
6	Plastic	3
7	Rubber Tyre	2
	Total	40

Source: Field survey

Regardless of the different types of industries, the study tries to analyse the problems of the entrepreneurs of Zuangtui industrial estate relating to finance and accounting as a whole.

Initial Capital

Initial capital is one of the most important components of setting up an industry. Availability of capital is the most important factor for the establishment of an enterprise (Krishna,2009). Table 2 shows the details of initial capital of the sample entrepreneurs of the present study.

Table 2: Sources of Initial Capital

S. No	Category	Handloom	Oxygen	Furniture	Food processing	Steel metal	Plastic	Rubber/ Tyre	Total	Perce nt	Rank
1	Own fund	18	1	4	3	1	3	1	31	67.39	1
2	Assistance or grants from government agencies	4	0	1	0	1	0	2	8	17.39	2
3	Loan from banks and financial institutions	1	1	0	0	1	1	0	4	8.69	3
4	Borrowing from local money lenders	1	0	0	0	1	0	1	3	6.52	4
5	Borrowing from friends/ relatives	0	0	0	0	0	0	0	0	0	0
	Total	24	2	5	3	4	4	4	46	100	

Source: Field survey.

Table 2 revealed that Own fund is the biggest source of initial capital with a percentage of 67.39, followed by assistance/grants received from government agencies which is 17.39%. Loan from bank and financial institutions is very low as it is only 8.69%. Grants/assistance is mainly received from the Industry Department, Govt of Mizoram. However, majority of the units did not receive assistance due to several reasons such as ignorance about the assistance, criteria not met, etc.

Table 3 shows the problems faced by entrepreneurs of Zuangtui industrial estate in raising money for business.

Table 3: Problems in raising money for business

S. No	Problems	Respondent’s ranking					
		Rank 1	Rank 2	Rank 3	Weighted Score	Rating percent	Rank
1	Non availability of funds	17	1	0	53	49.53	1
2	Lack of security to avail loans	2	6	0	18	16.82	3
3	High rate of interest in loan	2	3	1	13	12.15	4
4	Delay in getting the loan amount	1	0	1	4	3.74	5
5	No subsidy/grant received	3	3	4	19	17.76	2
	Total	25	13	6	107	100	

Source: Field survey

Table 3 depicts the various problems faced by 25 sample entrepreneurs; the other 15 were excluded as they reported that they did not face problems in raising money for business. As seen in the table the biggest problem faced in this regard is Non availability of funds (49.53%) followed by No subsidy/grant received (17.76%).

Problems in repaying loans

Table 4: Problems in recovery of loan

S. No	Problems	Respondent's ranking					
		Rank 1	Rank 2	Rank 3	Weighted Score	Rating percent	Rank
1	Lack of liquidity	4	2	0	16	44.44	1
2	Due to business loss	1	2	1	8	22.22	3
3	High rate of interest	3	1	1	12	33.33	2
	Total	8	5	2	36	100	

Source: Field Survey

Out of 40 sample entrepreneurs, 8 entrepreneurs reported that they face problems in repayment of loans. The most problem faced in repaying loan is Lack of liquidity which is 44.44% followed by High rate of interest (22.22%) and then followed by Business loss which is 22.22%. From the table, it is observed that in repaying loans, lack of liquidity problem is faced by 6 entrepreneurs. Among the remaining who do not have problems in repayment of loans, majority of them are the ones not taking loans, due to lack of security etc. So, less number of units facing problem in this regards does not necessarily mean they are financially stable.

Poor debt recovery

In today's business, products are sold in cash and on credit. Credit sales are taken into account in the accrual system of accounting. However, if debts are not recovered and if there are lots of bad debts, that creates huge problems for the business.

Table 5: Problems of Credit Sales

S.No	Particulars	No of response	Rating percent	Rank
1	Credit sales	19	47.50	2
2	No credit sales	21	52.50	1
	Total	40	100	

Source: Field survey

Out of 40 entrepreneurs, 19 (47.5%) faced a problem of credit sales. It means that their products are often sold through credit instead of cash, which they considered as an acute problem.

Table 6: Problems of Poor Recovery from Customers

S.No	Particulars	No of response	Rating percent	Rank
1	Poor debt recovery	7	17.50	2
2	Good recovery	33	82.50	1
	Total	40	100	

Source: Field survey

Table 6 shows the number of units suffering from poor debt recovery. Out of 40 entrepreneurs, 7 (17.5%) face a problem of poor debt recovery from customers while the remaining 33 (82.5%) do not face problem of the same.

Banks and ATMs

Finance is made available to entrepreneurs by the financial institutions, which have been built up by the Government as a network of special financial institutions with a fairly big capital base to provide financial assistance to all types of industries, including small scale industries (Murthy, 2003). Generally, banks and ATMs are set up within industrial estates to meet the financial requirements of the entrepreneurs. It creates easy access to their need with regard to deposition and withdrawal of money, availing loans etc. Table 4 is prepared to show the problems faced by the entrepreneurs of Zuangtui industrial estates regarding banks and ATMs.

Table 7: Problems relating to Banks and ATMs

S. No	Problems	Respondent’s ranking					
		Rank 1	Rank 2	Rank 3	Weighted Score	Rating percent	Rank
1	Non-availability of bank in the	12	6	0	48	50	1

	estate						
2	Insufficient bank/branch in the estate	0	0	0	0	0	0
3	Non-availability of ATM in the estate	8	12	0	48	50	1
4	Insufficient ATM in the estate	0	0	0	0	0	
	Total	20	18	0	96	100	

Source: Field survey

From the Table 7, it can be seen that 20 out of 40 sample entrepreneurs faced problems relating to banks. Non-availability of bank and ATM are the problems faced having 50% each. While conducting field survey, it is found out that neither bank nor ATM is run inside the estate. 50% (20 out of 40) reported this is a big problem for them as they are required to go out of their place whenever the need for bank/ATM arises.

Impact of Covid19 in sales volume

First identified in China in December 2019, a type of coronavirus, later called Covid19 spread almost all over the world. Coronavirus disease (Covid-19) is an infectious disease caused by the SARS-Cov-2 virus (WHO). Due to this contagious virus lockdown was declared worldwide that suspended flights, stopped trains, closed almost all activities and shut majority of industries and businesses. The impact of lockdown is quite severe on industrial activities in the country and the world as a whole.

The sector likely to be hardest hit in Mizoram due to Nationwide Lockdown are Trade, Hotel, Restaurants and Repairs Services, Transport & Communication, Construction and those in manufacturing (especially in garments), micro and small scale industries and those engaged in the formal sector. Decrease of output in these sectors have direct repercussions in terms of loss of livelihoods and incomes for those engaged, who invariably happen to be the most vulnerable sections of the society (Planning & Programme Implementation Department, 2020).

Below table is to show the impact of Covid19 and lockdown in sales volume of the industries in Zuangtui industrial estate

Table 8: Impact of Covid 19 and Lockdown in Sales Volume

S.No	Decrease	Response	Percent	Rank
1	Less than 20%	4	10	4
2	21% - 40%	10	25	2
3	41%-60%	9	22.50	3
4	61%-80%	4	10	4
5	81%-100%	11	27.50	1
6	No change	2	5	5
	Total	40	100	

Source: Field survey

Table 8 revealed that sales volume of the highest number (27.5 per cent) of industrial units decrease by 80-100% due to Covid19 and lockdown. This is followed by 20-40% decrease that is evidenced by 25 per cent units and then followed by decrease of 41-60% experienced by 22.5 per cent units. 10 per cent each of the entrepreneurs experienced Less than 20% decrease and 61-80% decrease. .

Major Findings of the study:

- The study observed that majority of the initial capital used for starting industries is own fund which is 67.39% followed by assistance or grants from government agencies and is 17.39%. Initial capital of loans from banks and financial institutions is 8.69% and borrowing from local lenders is 6.52%.
- It is observed that 62.5% of the respondents faced problems in raising money for business, non - availability of funds is the main problem faced and is 49.53% followed by non-availability of subsidy/grants being 17.76% and lack of security to avail loans being 16.82%.

- Only 20% of the respondents faced problems in repaying loans. Main problem faced is lack of liquidity (44.44%) followed by high rate of interest (33.33%).
- The study showed that 17.5% of the entrepreneurs face a problem of poor debt recovery from customers.
- It is observed that 50% of the entrepreneurs faced problems relating to banks. Non-availability of bank and Non-availability are the problems faced having 50% each.
- The study revealed that the largest number of units (27.50%) witnessed 80-100% decrease in sales due to lockdown followed by 20-40% decrease for 25% units and then followed by 41-60% decrease for 22.5% of the units.

Recommendations:

1. No subsidy/grant received is the 2nd highest problem of raising money for business with a weighted percentage of 17.76. It is suggested that the concerned department be more sincere and active in dealing with the possible grants and subsidies available for the entrepreneurs within the estate.
2. Lack of security to avail loans and high interest of loans are the 3rd and 4th highest problem with percentage of 16.82 and 12.15 respectively. Banks and financial institutions needs to be more liberal in giving loans to the small entrepreneurs. Security to avail loans should be minimized so as to promote small industries.
3. Neither bank nor ATM is found within the estate, so there should be at least one bank and ATM in order to meet the requirements of the entrepreneurs and also to promote financial inclusion.
4. From the personal interviews, it is found out that most of the entrepreneurs are not financially educated, so it is suggested for the entrepreneurs to attend some training of finance and accountancy even if not attained formal education in the stream.

Conclusion:

Setting up of small and cottage industries is useful and beneficiary for the economic and for the entrepreneurs themselves. At the same time, small industries are more vulnerable to face

different financial problems; therefore, a proper treatment is required. As the entrepreneurs of the present study do not maintain proper books of accounts, problems relating to accounts cannot be studied systematically.

References:

- Ackah, John., Vuvor, Sylvester. (2011) *The challenges faced by Small & Medium Enterprises(SMEs) in obtaining credit in Ghana* (Master's Thesis in Business Administration, MBA programme, Blenkinge Tekniska Hogskola, Sweden) Retrieved from: <https://www.diva-portal.org/smash/get/diva2:829684/FULLTEXT01.pdf>;The
- Colney, Rualkhuma. (2014) *Small scale and cottage industries Mizoram (2nd ed.)*.Aizawl, Mizoram, India: Lengchhawn Offset.
- Husin, Mohd Azian., Ibrahim Mohamed Dahlan (2013) *The role of accounting services and impact on Small Medium Enterprises Performance in manufacturing sector from east coast region of Malaysia: A conceptual Paper*. The 5th Indonesia International Conference on Innovation, Entrepreneurship and Small Businesses (IICIES 2013). Doi 10.1016/j.sbspro.2014.02.415
- Jeyaseeli, DH Vinsyah., Dr Justus, E Raja(2014) Accounting Practices of Micro, Small and Medium Enterprises (MSMEs) in the Tirunelveli Municipal Corporation of Tamilnadu. *Global Journal for Research Analysis*,3(11),16-18.
- Kalyani, Brinda., Kumar M, Dileep. (2013) Problems of Small Scale Enterprises and Entrepreneurs in SIDCO Industrial Estates, Case Research. Retrieved from <https://www.researchgate.net/publication/329034503>
- Krishna, SM. (2009) Problems and prospects of women entrepreneurs in North Coastal Andhra Pradesh : A case study. *Sedmi*, 36(1), 53-64.
- Lalhunthara (2012) *Entrepreneurship in Micro Enterprises in Aizawl District, Mizoram* (Doctoral Dissertation, Department of Commerce, School of Economics, Management and Information Sciences, Mizoram University, Aizawl).
- Lalremruati, Priskil., Fanai, Lalneihluangi. (2018) Financial inclusion with reference to food & grocery shop owner in Aizawl. *International Journal of Management Studies*, 5(4), 37-44.
- Murthy, CSV. (2003) *Small Scale Industries and entrepreneurial development (2nd ed.)*. Mumbai, India: Himalaya Publishing House.
- Patnaik, UC., Acharya, GS. (2006) *Small scale industries and industrial estates programme*. New Delhi, India: Sonali.

Planning & Programme Implementation Department.(2020) ‘*Study on Covid-19 Lockdown and its Economic Consequences for the State of Mizoram*’.

Rocca, Maurizio La., Rocca, Tiziana La., Cariola, Alfio. (2009) Small business financing: Financial preferences throughout the life cycle of a firm. *ResearchGate*. Retrieved from : <https://www.researchgate.net/publication/242086295>

Trade & Commerce. (2020) *About the department of Trade and Commerce*. Retrieved from <https://tradeandcommerce.mizoram.gov.in>

World Health Organisation (WHO), Retrieved from:

https://www.who.int/health-topics/coronavirus#tab=tab_1

Yildirim, Durmus Cagri., Unal, Ozlem Tosuner., Gedikli, Ayfer (2015) Financial Problems of Small and Medium-Sized Enterprises in Turkey. *International Journal of Academic Research in Business and Social Sciences*,5(1), 27-37.
DOI: 10.6007/IJARBSS/v5-i1/1397

Zotorvie, JS Tetteh. (2017) A study of financial accounting practices of small and medium enterprises(SME) in Ho Municipality, Ghana. *International journal of Academic Research in Business and Social Sciences*,7(7), 29-39.

DOI:[10.6007/IJARBSS/v7-i7/3075](https://doi.org/10.6007/IJARBSS/v7-i7/3075)