

# Operational Dynamics and Procurement practices in Kerala Model Self-Help Groups: An Empirical Analysis

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## Abstract:

Self-Help Group (SHG)-linked micro-enterprises engage in a wide spectrum of livelihood activities aimed at socio-economic empowerment of their members. These activities encompass the production of food items, manufacturing of everyday consumer goods, provision of IT education, solid waste management operations, animal husbandry, tourism-related services, and health care initiatives. The present study examining raw material sourcing practices among SHG-linked micro enterprises, based on primary data from 251 randomly selected units in Malappuram district, Kerala, found significant differences in raw material procurement patterns depending on the number of years the micro enterprises had been operating. ANOVA result shows that there exists a significant difference between sourcing and groups of functioning years. Most of SHGs in Kerala rely heavily on locally sourced raw materials to reduce transportation costs and overcome limitations from their small production scales, which restrict them from availing bulk purchase benefits.

**Keywords — Self-help group, Micro enterprise, Entrepreneurship, Raw material procurement**

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## I. INTRODUCTION

Self-Help Groups (SHGs) in India have emerged as a powerful mechanism for poverty alleviation, particularly among rural women who represent a large share of their membership. These groups function as small, community-based associations of individuals who voluntarily come together to save money, pool resources, and provide mutual support in achieving shared economic and social objectives. By bringing together people from similar socio-economic backgrounds, SHGs create a platform for collective decision-making and financial discipline.

A central focus of SHGs is financial inclusion—providing members, especially women and marginalized groups, with access to micro-credit and banking services that would otherwise be unavailable through traditional financial institutions. Through small loans and savings programs, members are encouraged to undertake

entrepreneurial ventures such as small-scale production, handicrafts, or local trade, thereby generating income and improving their families' economic stability. This access to finance also helps reduce the dependence on informal moneylenders, who often charge exploitative interest rates.

The Indian government, recognizing the development potential of SHGs, has actively promoted their formation under various poverty eradication and rural development programs, notably through the National Rural Livelihood Mission (NRLM). These efforts are further supported by non-governmental organizations (NGOs), banks, and development agencies, which provide training in financial literacy, entrepreneurship, leadership, and group management, enabling SHGs to function effectively and sustainably. The Government of Kerala started Kudumbashree in 1998, which aims to reduce absolute poverty from the state through community-

based action led by local self-governments. This program focuses on women's empowerment and is one of the largest projects of its kind in the country.

This program focuses on women's empowerment and is one of the largest projects of its kind in the country. This SHG is one of the most successful community development initiatives in India, has achieved significant outreach, with nearly half of all families in the state integrated into its network of community organizations. Established under the provisions of the state charitable societies act, Kudumbashree functions as a federation of women-led community-based organizations that work toward holistic empowerment. Its core focus areas—economic, social, and gender empowerment—are designed to address poverty not merely as an economic issue but as a multidimensional challenge affecting personal dignity and social participation. The organization operates through a structured three-tier network of Neighbourhood Groups (NHGs), Area Development Societies (ADS), and Community Development Societies (CDS), all governed by a common bylaw ensuring consistency and transparency in functioning. Its mission centers on empowering women by organizing them into self-help groups and enabling them to participate actively in micro-enterprises, skill development programs, and social welfare initiatives

SHGs typically receive capacity-building assistance in the form of skill development training, infrastructure support, and financial aid. This support is often extended through government schemes, institutional financing from NABARD, and assistance from international and state-linked organizations such as UNICEF and allied agencies. Despite these efforts, many SHG enterprises continue to face significant challenges in achieving sustainable income levels. The lack of high-return business opportunities limits their potential for profitable ventures. Additionally, they encounter both internal and external impediments, including inadequate managerial skills, irregular supply chains, limited access to markets, and issues related to the procurement of quality raw materials

(Shehnaz & Kumar, 2019). These constraints often compel SHG members to produce goods that yield only marginal profits, thereby restricting the overall economic progress of the groups (Nayak et al., 2020).

In this context, the present study focuses on assessing the raw material sourcing practices of SHG-linked enterprises and exploring the connection between the production cost and the cost associated with the procurement which indeed critical for identifying strategies that can strengthen SHG operations, enhance their production efficiency, and improve their income-generating capacity.

## **II. REVIEW OF LITERATURE**

Siddhartha et al. (2019) conducted an empirical study in Puducherry to explore the causal relationships among training, production, retailing, and MSME linkages in Self-Help Groups (SHGs), based on primary data collected from 251 SHGs through a structured questionnaire. The study defined training in terms of members' willingness, priority, and satisfaction with training, production as operational activities and priorities, and retailing as sales-related actions and decisions, while MSME linkage represented the SHGs' connections with small enterprises. The findings revealed that training significantly and positively influenced production, retailing, and MSME linkage, while both retailing and MSME linkage also had a positive effect on production, confirming all proposed hypotheses. The results highlight the critical role of training in enhancing SHG performance by strengthening production efficiency, market access, and enterprise collaboration. In a related view, Baines et al. (2014) noted that factors such as price, quality, and supplier relationship duration are important considerations when procuring raw materials, aligning with the understanding that both internal capabilities and external partnerships contribute to effective production outcomes.

Bindia (2014) conducted an exploratory study to examine the prospects and evaluate the

entrepreneurial activities undertaken by women in Himachal Pradesh. The research involved extensive fieldwork among 180 women entrepreneurs, providing valuable insights into the dynamics of women-led enterprises and the challenges they encounter during business operations. The study identified a five-step process that women typically follow when establishing a business. These steps include recognizing entrepreneurial opportunities, undergoing necessary training, procuring essential resources such as raw materials and finance, managing production activities, marketing their products or services, and finally expanding the business. Each stage requires strategic decision-making and resource management, but the study particularly highlights the pivotal role of raw material procurement in ensuring the smooth running of a business. It was revealed that access to raw materials is closely linked to both the type of business and the ownership structure. Individual women entrepreneurs often rely on locally available raw materials, primarily due to their limited mobility and difficulty in traveling to distant suppliers. As sole proprietors, they shoulder all managerial and operational responsibilities, leaving little scope for wider resource sourcing. Consequently, these entrepreneurs face constraints in terms of quality and cost competitiveness. Conversely, group enterprises managed by multiple women exhibited better resource management capabilities. These collectives could procure high-quality raw materials from distant markets at lower costs, leveraging their collective mobility, shared responsibilities, and stronger bargaining power. This comparison underscores a structural advantage of group entrepreneurship over individual ventures in addressing supply chain challenges. The study concludes that that restricted access to raw materials remains a significant barrier for women entrepreneurs in Himachal Pradesh. The findings, supported by Jahan (2020), suggest that overcoming challenges related to procurement and mobility is essential to strengthen women's participation in entrepreneurship and enhance the sustainability of their enterprises.

Nambirajan (2019) emphasizes that successful retailing of products made by self-help groups (SHGs) depends on establishing exclusive retail outlets dedicated to these products. Such stores would serve as a reliable marketplace that connects SHG producers directly with consumers, enhancing visibility and enabling better price realization for locally made goods. The study highlights that the absence of a specific and permanent retail location poses a major obstacle for SHGs. Without a stable sales point, their access to customers remains inconsistent, limiting their ability to maintain regular income and brand identity. Additionally, the physical distance between SHG production centers and major markets further aggravates the problem. Members often face logistical challenges such as high transportation costs, longer travel times, and reduced profit margins. These geographical constraints prevent SHGs from participating actively in competitive retail spaces, restricting their growth potential. It has been concluded that establishing exclusive SHG retail outlets in accessible locations could play a transformative role in improving market linkage, ensuring sustainable livelihoods, and integrating SHG-based enterprises more effectively into the retail ecosystem.

### **III. RESEARCH METHODOLOGY**

The study aimed to examine in detail the various aspects of raw material procurement practices followed by SHG micro enterprises. It is therefore evident that the research adopts a descriptive approach. Initially, a subject expert opinion survey on the identified variables was conducted to validate the questionnaire, after which necessary modifications were made. Additionally, the reliability of the questionnaire was assessed using the Cronbach's alpha value. A structured questionnaire was administered among group leaders of randomly selected 251 self-help groups registered under local self-government in Malappuram district, Kerala. The study mainly considered priorities with respect to raw material

procurement.it includes items such as Price/cost influences purchase of raw material, quality of raw material influences purchase of raw material, service quality influences purchase of raw material, credit facility influences purchase of raw material and length of relationship influences my decision of purchase of raw material. The data analyzed with the help of SPSS using the statistical tools descriptive statistics with frequency analysis and ANOVA (Hair, 2006).

#### IV RESULTS AND DISCUSSION

**Table 1: Place of Raw Material Procurement**

Place	Frequency	Percentage
Local market	102	40.6
Other city/town/village	66	26.3
Other district	71	28.3
Other state	12	4.8
Total	251	100.0

From the above table, it is clear that majority that is 40.6% of groups collect raw material from local market. Around 28.3% of groups get raw material from another district of Kerala. Whereas a substantial 26.3% of groups procure raw material required for production from other city/town/villages. A small proportion consisting of 4.8% depend on other states for raw material. Thus, most of SHGs find raw materials from nearby market as it is easily accessible. Though purchasing from distant places would bring some price differences, they are reluctant as it involves huge transportation costs, and their production volume is also smaller, which hinders them from getting the discount benefit of bulk purchase.

**Table 2: Percentage of Production Cost Attributable to Raw Material**

Percentage of cost	Frequency	Percentage
<10%	3	1.2
10-30%	21	8.4
30-50%	67	26.7
50-70%	99	39.4

>70%	61	24.3
Total	251	100.0

Table 2 shows that the most of SHGs consisting of 39.4% incur 50-70% of cost of production for raw material procurement. While a substantial portion of SHGs consisting of 26.7% spend 30-50% of production cost to purchase raw material. Around 24.3% of groups incur above 70% of production cost for sourcing raw material. Around 8.4% and 1.2% of groups incur 10-30% and below 10% of production costs, respectively, for procuring raw materials.

**Table 3: ANOVA for Year of Functioning and Sourcing of Raw Material**

Factor	No of Years	Mean	F-value	Significance
Sourcing	1-2	2.4471	6.116	0.0004
	2-3	2.6875		
	3-4	2.9784		
	Above 4	3.1313		

Since significance value is less than 0.05, it is concluded that there exists a significant difference between sourcing and groups of functioning year

**Table 4: Post-hoc of Sourcing and Years of Functioning**

Sourcing				
Duncan				
Year of functioning	N	Subset for alpha = 0.05		
		1	2	3
1-2	17	2.4471		
2-3	32	2.6875	2.6875	
3-4	74		2.9784	2.9784
Above 4	128			3.1313

To determine individual differences between groups, post-hoc test (Duncan multiple range test) was performed. The test result shows a significant difference between 1-2 years, 2-3 years of functioning, and 3-4 years and above four years in operation. Whereas there is no significant difference between 1-2 and 2-3 years of functioning with regard to sourcing of SHGs.



## V CONCLUSION AND IMPLICATIONS

Most of SHGs in Kerala rely heavily on locally sourced raw materials to reduce transportation costs and overcome limitations from their small production scales, which restrict them from availing bulk purchase benefits. This local sourcing supports community economies but limits access to competitive pricing and quality materials from outside markets. They prefer local sourcing due to easy accessibility and to avoid high transportation costs, as their small production scale prevents them from benefiting from bulk purchase discounts. This local sourcing supports community economies but limits access to competitive pricing and quality materials from outside markets

Most of the self-help groups (39.4%) spend 50–70% of their production costs on raw materials. About 26.7% allocate 30–50% of costs, while 24.3% spend more than 70%. A smaller share, 8.4%, spend 10–30%, and only 1.2% spend below 10% of production costs on raw materials which could hinder scalability and competitiveness. ANOVA test depicts that there exists a significant difference between sourcing and groups of functioning years indicating that older SHGs may have developed better supplier networks and cost management strategies, while newer groups need support in procurement planning and supply chain efficiency. Overall, the results highlight the need for collective purchasing, logistics support, and skill development programs to enhance cost efficiency and long-term sustainability of SHGs.

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