

An analysis of Micro, Small and Medium enterprises-Critical Issues

F. AKATH SHAREN AKSHAYA

Ph. D Research Scholar,
St. John's College of Arts & Science,
Ammandivilai.

(Affiliated to Manonmaniam Sundaranar
University, Abishekapatti,
Tirunelveli 627012. Tamilnadu India)

Dr. R. RATHIHA

Associate professor,
St. John's College of Arts & Science,
Ammandivilai.

Kanyakumari District
(Affiliated to Manonmaniam
Sundaranar University, Abishekapatti,
Tirunelveli-627 012. Tamilnadu India)

Abstract

Micro, Small and Medium Enterprises constitute the backbone of an economy in maintaining an appreciable growth rate and in generating employment opportunities. In developing countries, Micro, Small and Medium Enterprises (MSMEs) form a large portion of industrial composition. Especially in India, post-independence era, MSMEs have been a dominant force by means of their contribution to income and employment generation abreast problems of disparities. Despite an intricate policy framework, their progress is hampered by few basic constraints for instance finance accessibility, lack of technical know-how and skilled manpower, The purpose of this paper is to study various challenges faced by Micro, Small and Medium sized enterprises (MSMEs) in India. As far as Indian economy is concern, the MSME sector plays a very significant role in employment generation and in industrial production

Key words: MSMEs, employment, economy, generation.

Introduction

“Entrepreneurs have played an enormous role in shaping the Indian economy since the country became independent; Entrepreneurship is the hidden ingredient of India’s success”

-SurenDutia

MSME stands for Micro, Small and Medium enterprise. In a developing country like India, MSME industries are the backbone of the economy. The Government of India has introduced MSME or Micro, Small, and Medium Enterprises in agreement with Micro, Small and Medium Enterprises Development (MSMED) Act of 2006. These enterprises primarily engaged in the production, manufacturing, processing, or preservation of goods and commodities. The Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are an important sector for the Indian economy and have contributed immensely to the country’s socio-economic development. It not only generates employment opportunities but also works hand-in-hand towards the development of the nation’s backward areas. According to the annual report by the Government (2018-19), there are around 6,08,41,245 MSMEs in India. MSMEs are not just any small firms. They offer employment to one-third of 1.2 billion people in the world who work in the informal sector and generate services for other sectors like small and large industries, retail, tourism, transportation, construction, etc. But today, many sub-sectors within MSMEs face challenges in attaining their rightful share of the market, which will undoubtedly have a significant impact on their performance as well as future growth outlook. While there are some major challenges faced by such sub-sectors like Construction, Retail, etc., they still require to be inculcated and incorporated within the MSME ecosystem. A majority of Indian MSMEs face major issues like operating from underground locations, having to deal with scams, poor working conditions, lack of skills, and low productivity. Moreover, most MSMEs are not productive

and do not create much value whereas they merely perform regular tasks which they may have bought or borrowed from other firms. Government of India has recognized the important role of micro, small and medium enterprises as it is the key driver of economic growth and development and employment generation. Enterprises are a source for generation of employment in large numbers. Such enterprises are being broadly classified into: i) Enterprises engaged in manufacture/production of goods pertaining to any industry and ii) Enterprises engaged in providing/rendering of services.

Classifications of MSMEs

MSME's are classified as per their turnover and investment. The new classifications as per the Aatma Nirbhar Bharat Abhiyan Scheme in 2020 is given in the table below:

Table 1

Classifications of MSMEs

Ob jec tiv es of the	Size of the Enterprise	Investment and Annual Turnover
	Micro	Investment less than Rs. 1 crore Turnover less than Rs. 5 crores
	Small	Investment less than Rs. 10 crores Turnover up to Rs. 50 crores
	Medium	Investment less than Rs. 20 crores Turnover up to Rs. 100 crores

study

- To analyse the constraints faced by entrepreneurs in MSME.
- To study demographic profile of MSME.

Research Methodology

This study contains both primary and secondary data. Primary data have been collected from entrepreneurs engaged in Micro, Small and Medium enterprises through structured interview schedule. Secondary data is collected from Journals, Internet and Magazines.

Review of literature

- ❖ **Vasu and Jayachandra (2014)** highlight a series of problems like inadequate and absence of timely bank credit, lack of infrastructural inputs and banking support, limited capital and knowledge, low managerial capability, low rate of return, unsuitable technology, low production and productivity, inefficient marketing strategies, lack of new markets, no expansion plans, absence of transportation and warehousing facilities, lack of timely or complete information, unskilled labour and training and ever-increasing competition with dwindling exports as the primary problems faced by an enterprise. The authors stressed upon the importance of 40 formulating simple policies regarding operating environment as well as improving the infrastructural and managerial facilities, and arrangement of adequate financial facilities with suitable modern technology in order to address the problems documented.
- ❖ **Siddiqui, (2018)** in his study entitled that during early growth stages micro, small and medium enterprises need timely and sufficient capital. MSMEs rely on various sources of finance. Various financial problems are inadequate and non-timely credit, limited knowledge and capital, collateral security requirement, not sufficient working capital, recovery from debtors, for availing loan from financial institutions excessive paper work is required.

Table-2**Demographic data**

Variables	Particulars	No. of Respondents	Percentage
Gender	Male	59	59
	Female	41	41
Total		100	100
Age	Below30	9	9
	30-40	48	48
	40-50	35	35
	Above 50	8	8
Total		100	100
Educational Qualification	Uneducated	5	5

	School	15	15
	Under graduate	20	20
	Post graduate	35	35
	Professional	25	25
Total		100	100
Marital status	Married	69	69
	Unmarried	11	11
	Widow	20	20
Total		100	100
Religion	Hindu	30	30
	Christian	55	55
	Muslim	13	13
	Others	0	0
Total		100	100
Community	General	58	58
	OBC	28	28
	SC/ST	14	14
	Others	0	0
Total		100	100

Source: Primary data

Table No.2 observed that 59 percent of the respondents are male and remaining 41 percent are female. 9 percent of the respondents belongs to the age group of below30, 48 percent of the respondents belong to the age group of 30-40, 35 percent of the respondents belongs to the age group of 40-50, 8 percent of the respondents belongs to the age group of above 50. 5 percent of the respondents are Uneducated, 15 percent of the respondents are school level,20 percent of the respondents are under graduate, 35 percent respondents are Post Graduate, and 25 percent of the respondents are in professionals. 69 percent of the respondents are married, 11 percent of the respondents are unmarried, 20 percent of the respondents are widow. 30 percent of the respondents are from Hindu, 55 percent of the respondents are from Christian. 13percent of the respondents are from Muslim. 58 percent respondents are general, 28 percent respondents are OBC, 14 percent respondents are SC\ST.

Financial issues of entrepreneurs in Micro, Small and Medium enterprises

Finance is the lifeblood of any enterprise. Various banks and institutions extend their maximum support in the form of incentives, loans, schemes etc. Even then every entrepreneur may not be aware of all the assistance provided by these institutions. Adequate financial support can accelerate the success of an enterprises. If an entrepreneur is unable to mobilize the needed finance, her dream will not come true. Finance is essential to start as well as to run a business enterprise. Most of the entrepreneurs are facing financial problems at the time of starting as well as during the operation of their business enterprises. Obtaining the support of bankers, managing the working capital, lack of credit resources are the major problems. Some problems are structural in nature and beyond the control of entrepreneurs. Bankers, creditors and financial institutes are not coming forward to provide financial assistance to borrowers on the ground of their less credit worthiness and more chances of business failure.

Table-3

Financial issues of entrepreneurs in Micro, Small and Medium enterprises

S.No	Financial problems	Mean Score	Rank
1	1.Non availability of adequate finance	3.90	1
2	2.Depend on local financial resource	3.40	4
3	3. Delay in payment	2.56	8
4	4.Insufficient cash flow	3.23	6
5	5.Shortage of liquid assets	3.64	3
6	6.Lack of financial information system	3.80	2
7	7.Inadequate profit	3.12	7
8	8.Reduction in the credit facilities provided to MSMEs.	3.32	5

Source: Primary data

The most of the financial problems is ‘non availability of adequate finance’ as it scores the maximum mean score of 3.90, because the entrepreneur have limited working capital and

funds from fixed assets. 'lack of financial information system' is ranked II with the mean score of 3.80. 'Shortage of liquid assets' is ranked III with the mean score of 3.64.

Marketing issues of entrepreneurs in Micro, Small and Medium enterprises

Entrepreneurs continuously face the problems in marketing their products. It is one of the core problems, with adequate experience fail to make a dent in the issue. For marketing the products, entrepreneurs have to be at the mercy of the middleman who pocket the chunk of the profit. Although the middleman exploits the entrepreneurs, the elimination of middlemen is difficult, because it involves a lot of running about. Entrepreneurs also find it difficult to capture the market and make their product popular.

Table -4

Marketing issues of entrepreneurs in Micro, Small and Medium enterprises.

S.No	Marketing issues	Mean score	rank
1	Lack of standardization	3.59	1
2	Transportation problems	2.63	7
3	Lack of demand	2.72	6
4	Lack of finance to undertake marketing activities	2.78	5
5	Difficulty to getting financial support from banks	3.23	3
6	Lack of service after sales	2.99	4
7	Advertisement problems	3.45	2

Source: Primary data

The most important variable considered in marketing, is the 'Lack of standardization' with the highest mean score of 3.59. 'Advertisement problems' is ranked II with an overall mean score of 3.45. 'Difficulty to getting financial support from banks' is ranked III with a mean score of 3.23, and 'Lack of service after sales' is ranked IV with an overall mean score of 2.99.

Production issues of entrepreneurs in Micro, Small and Medium enterprises.

High cost of production undermines the efficiency and stands in the way of development and expansion for the enterprises. Entrepreneurs face technology obsolescence due to non-adoption or slow adoption to changing technology, which is a major factor in the high cost of production. Major production issues of the entrepreneurs in Micro, Small and Medium enterprises are exhibited in table-4.

Table-5

Production issues of entrepreneurs in Micro, Small and Medium enterprises.

Production issues	Mean score	Rank
Raw material procurement	2.40	8
Availability of technology	2.54	7
Lack of skilled manpower	3.75	2
Quality of raw materials	3.92	1
Govt policies and regulations	2.99	5
Forecasting demand for products	2.63	6
Transportation and connectivity	3.38	3
Lack of marketing system	3.35	4

Source: primary data

‘Quality of raw materials’, since their mean score of 3.92. The next main variable is ‘Lack of skilled manpower’ is ranked as II with the mean score of 3.75. ‘Transportation and connectivity’ got III rank with the mean score of 3.38.

Suggestions

- The government has set up several programs that aim at boosting MSMEs. With the help of government schemes, they have been able to increase their output.
- Introduced various policies which aim at reducing costs such as providing land and utility subsidies to MSMEs and also improving access to finance for smaller firms.

Conclusion

MSME sector contributes to employment generation at low capital cost compared to large industries. It helps in industrialization of reduces regional imbalance and ensures equitable

distribution of income and wealth. This study has discussed the problems of micro, small and medium enterprises. The challenge of MSMEs sector hinders the entrepreneurship development of the country and survival and growth of MSMEs sector. There are various schemes designed by government for solving problems, government efforts have been made for smooth flow of credit to MSMEs sectors but still MSMEs requires finance. Government has taken tremendous effort on lending to MSME sector. MSMEs should be supported by government at start-up stage. Timely policy intervention and government support can make MSMEs globally competitive.

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