

What is putting brakes on economy's growth engine? : A select study on MSMEs in India

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Abstract--- *Micro Small and Medium Enterprise (MSME) sector in India is one of the crucial contributors to overall economic development. It acts as one the major supporter to any government looking for the overall economic development either of the state or of the country. Employment generation, use of local resources and traditional or inherited skills, low capital and technological requirements, mobilization of resources etc. are few key reasons highlighting the significance of this sector. However it is not so easy to start a business and to sustain in the market, specifically when we are talking about developing country like India, even if when there are numerous efforts being made by the government towards the development and prosperity of MSME sector. This paper is based on a survey carried out in 123 Indian MSMEs to investigate the problems faced by them that affect their performance, so that the same could be taken into consideration by the policymakers for effective planning, decision making, and structured implementation. This study revealed, in ranking order, various problems or challenges being faced by the enterprises related to finance, management, raw material technology, marketing, etc. Results of the study show that when it comes to the problems being faced by various MSME's, except finance they are almost similar irrespective of the nature of the organization.*

Keywords--- *MSME, small and medium enterprises, MSME problems, entrepreneurship, Indian MSME sector*

I INTRODUCTION

The growth that India has seen in terms of its manufacturing sector, over the years has been tremendous. Taking reference from the Index of Industrial Production (IIP), from 2.8% in 2015-16 to 4.6% in 2017-18 (2011-12 as a base year), the growth of manufacturing sector has been huge. Talking about the service sector, during 2017-18, the value of exports from MSME related products reached to \$147,390 million. The data itself is a reason enough to understand the potential this nation holds to promote entrepreneurship by encouraging the growth of MSMEs in the country. MSMEs contribute not just in terms of employment generation, but increasing exports and the GDP. There are about 63 million MSMEs that employ closely 110 million people. They operate within an ecosystem of resources such as funding, manpower and technology.

Data states that MSME accounts for around 45% of the total manufacturing output and 40% of exports and employs around 60 million people. So, for the inclusive growth of the economy, development of MSME sector is

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crucial. The government is providing all these resources that would help in the smooth functioning of MSMEs. However, when compared to other economies like China and Thailand, Indian MSME's are still lagging behind.

In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified and defined as follows:

Manufacturing Sector	Enterprise	Investment in Plant & Machinery
	Micro	Doesn't exceed 25 lakh rupees
	Small	< 25 Lakh rupees and upto 5 Crore rupees
	Medium	< 5 Crore rupees and upto 10 Crore rupees
Service Sector	Enterprise	Investment in Equipments
	Micro	Doesn't exceed 10 lakh rupees
	Small	< 10 lakh and upto 2 crore rupees
	Medium	< 2 crore and upto 5 crore rupees

Source: <https://msme.gov.in/know-about-msme>

II Literature Review

Yadav and Tripathi (2018) in their study highlighted issues related to inadequate capital and credit flow, management practices and information handling, marketing etc. with respect to the MSME sector. Lahiri (2011) highlighted the issues related to the competition from large scale industries, adequate infrastructure, product standardization and quality management etc. Lokhande (2011) found issues related to convenience access to credit and the condition of indebtedness.

Mulimani et al. (2012) in their study concluded that issues related to adequate availability of raw material, capital and credit facilities, research and development, constraint related to technical knowledge, distribution system etc. are troubling MSMEs. Panigrahi (2012) highlights that MSMEs face problems in the production and marketing of their products. Lack of proper infrastructural facilities, difficult accesses to credit, stiff competitions, recruitment of skilled managerial and technical personnel are few of the challenges. Bose (2013) found that despite various policy initiatives and guidelines of Government and apex institutions, there exists demand-supply mismatch in the availability of finance for the MSMEs.

Mukerjee (2018) concluded that competitiveness of MSMEs could be enhanced by making effective efforts towards higher investment into advanced technology, by using digital platforms, technology transfers, ease in access to finance, bridging the infrastructural gaps, and effective but lesser stringent business regulations. Shaik et al. (2017) establishes that although MSME sector has shown a positive contribution to employment and fixed assets growth in recent years but it still faces a number of challenges such as lack of timely credit, high cost of credit, difficulty in procurement of raw material, problems in storage and designing, inadequate infrastructure, low technology levels, lack of skilled manpower, etc.

Kumar et al. (2009) stressed upon the marketing and sales related issues, and suggested that technological upgradations and innovations are actually required in this sector to achieve global competitiveness. Nishanth and Zakkariya (2014) reviewed that "there exists problem in accessing finance from banks and financial institutions and also viewed that this problem may differ from region to region between sectors, or between individual enterprises within a sector." Singh and Singh (2014) mentioned the issues related to financial management, sales

and marketing, competition from MNCs, lower demand etc. and termed them as the exposed problems to MSMEs in India.

Siddiqui (2015) found clues in terms of marketing and working capital management issues. Garg (2014) in her study concluded that though globalization has increased competitiveness in Indian MSMEs to certain extent, still Indian MSMEs are not adequately prepared to compete with the global players. Bhoghanadam et al. (2017) analyzed the existing literature on various challenges faced by the Indian MSME sector and divides them into internal and external factors. The study also provides a literature matrix in which all the challenges are bifurcated into external issues, environmental issues, sociocultural issues, marketing issues, financial issues, HR development issues, and infrastructure issues.

Ghouse (2017) performed a study to understand the perceived challenges regarding the internationalization of their MSMEs in terms of export markets, sales methods chosen, competition status and problems associated with export. Study revealed lack of infrastructure, export subsidies, market awareness and export promotion as top most challenges. Study of Ilahi (2015) revealed that the lengthy procedure of getting finance is the major problem. Majority of MSMEs refrain from incurring large marketing expenses.

Other major problems relate to the field of technology, infrastructure, marketing, labor, design, standardization, etc. Chandraiah et al. (2014) establishes that the growth of modern MSMEs is a rewarding feature of Indian economic development. MSMEs face a number of challenges in the field of credit, raw material, designing, packaging, storage, infrastructure, manpower, etc. but still it has been able to survive economic downturn and recession because of its innovation, adaptability, and resilience.

III Objectives of the study & Hypothesis:

The objectives of the study are as follows:

- To know and prioritize various challenges of different MSMEs
- To know whether the problems being faced by different units of MSME sector are similar or different

For the same objectives following hypothesis has been framed:

- H0 : There is no significant difference in various problems being faced by different sectors
- H1: There exists significant difference in problems being faced by different sectors

IV Research Methodology:

For the study convenience sampling method was used and 123 units from selected cities of western Uttar Pradesh, India were taken into consideration. Structured questionnaire with likert scale was used to collect and record the opinions of respondents. Data was collected from various business units of leather, glass, and food industry.

V Data Analysis:

Data analysis was performed by using suitable statistical tools and techniques, for ranking of the perceived problems and to find out the similarity or differences with respect to the difference in nature of the enterprises.

Rank analysis has been performed to create a list of issues being considered by the enterprises as highly critical to normal. Furthermore ANOVA technique is applied to find out the similarities or differences among the problems being faced by units of different sectors.

Table 1: Response of the respondents for the questions asked (In numbers and in percentage respectively)

Financial Issues					
Factors	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Unavailability of credit	8(6.50)	23(18.70)	10(8.13)	42(34.15)	40(32.52)
High cost of borrowing	1(0.81)	16(13.01)	14(11.38)	70(56.91)	22(17.89)
Shortage of Working Capital	0(0.00)	4(3.25)	12(9.76)	59(47.97)	48(39.02)
Difficulty in receiving amount from Debtors	2(1.63)	7(5.69)	12(9.76)	65(52.85)	37(30.08)
Collateral requirements	3(2.44)	3(2.44)	12(9.76)	44(35.77)	61(49.59)
Excessive paper work while availing loan from Financial Institutions	2(1.63)	5(4.07)	11(8.94)	55(44.72)	50(40.65)
Managerial Issues					
Lack of management skills	5(4.07)	27(21.95)	11(8.94)	47(38.21)	33(26.83)
Absence of Long term planning	12(9.76)	18(14.63)	15(12.20)	52(42.28)	26(21.14)
Dealing with Government laws	9(7.32)	24(19.51)	9(7.32)	54(43.90)	27(21.95)
Marketing Issues					
Weak Market Demand	4(3.25)	27(21.95)	10(8.13)	55(44.72)	27(21.95)
Availability of Limited local market	12(9.76)	23(18.70)	12(9.76)	50(40.65)	26(21.14)
Less Variety of goods offered to market	10(8.13)	27(21.95)	16(13.08)	47(38.21)	23(18.70)
Excessive market competition	0(0.00)	8(6.50)	27(21.95)	51(41.46)	37(30.08)
Technology of competitor is superior	5(4.07)	19(15.45)	13(10.57)	50(40.65)	36(29.27)
Customer perceives the price of offered goods as high	1(0.81)	32(26.02)	18(14.63)	44(35.77)	28(22.76)
Large Scale Industries are acting as/providing threat to SSI	27(21.95)	14(11.38)	20(16.26)	32(26.02)	30(24.39)
Raw Material Issues					
Unavailability of raw material	23(18.70)	9(7.32)	15(12.20)	51(41.46)	25(20.33)
Price Fluctuations	15(12.20)	13(10.57)	10(8.13)	58(47.15)	27(21.95)
Low Quality	9(7.32)	24(19.51)	18(14.63)	57(46.34)	15(12.20)
Imports of raw material is difficult	73(59.35)	29(23.58)	14(11.38)	4(3.25)	3(2.44)
Labour Related Issues					
Labour absenteeism	2(1.63)	31(25.20)	20(16.26)	59(47.97)	11(8.94)
Lack of skilled labour	11(8.94)	12(9.76)	15(12.20)	60(48.78)	25(20.33)

High Labour turnover	7(5.69)	24(19.51)	17(13.82)	51(41.46)	24(19.51)
High cost of labour	1(0.81)	29(23.58)	14(11.38)	48(39.02)	31(25.20)
Technological Issues					
Obsolete Plant and Machinery	4(3.25)	25(20.33)	18(14.63)	49(39.84)	27(21.95)
Inadequate infrastructure with the firm	16(13.01)	16(13.01)	14(11.38)	50(40.65)	27(21.95)
Low quality of products offered in market(in comparison to competitors)	3(2.44)	20(16.26)	14(11.38)	46(37.40)	40(32.52)

Table 2: Ranking of factors being considered as problems

Problem Category	Problems Statement	N	Mean	Sum	Percent	Rank
Finance	Collateral requirements	123	4.28	526	85.53	1
Finance	Shortage of Working Capital	123	4.23	520	84.55	2
Finance	Complex paper work while availing loan from Financial Institutions	123	4.19	515	83.74	3
Finance	Difficulty in receiving amount from Debtors	123	4.04	497	80.81	4
Marketing	Excessive competition in the market	123	3.95	486	79.02	5
Technological	Low quality of products	123	3.81	469	76.26	6
Finance	High cost of borrowing	123	3.78	465	75.61	7
Marketing	Technology of competitor is superior	123	3.76	462	75.12	8
Finance	Unavailability of credit	123	3.67	452	73.50	9
Labour	High cost of labour	123	3.64	448	72.85	10
Managerial	Lack of management skills	123	3.62	445	72.36	11
Labour	Lack of skilled labour	123	3.62	445	72.36	12
Marketing	Weak Market Demand	123	3.60	443	72.03	13
Technological	Obsolete Plant and Machinery	123	3.57	439	71.38	14
Raw Material	Raw material price fluctuations	123	3.56	438	71.22	15
Marketing	Customer perceives the price of offered goods as high	123	3.54	435	70.73	16
Managerial	Dealing with Govt. laws	123	3.54	435	70.73	17
Managerial	Absence of Long term planning	123	3.50	431	70.08	18
Labour	High Labour turnover	123	3.50	430	69.92	19
Technological	Inadequate infrastructure with the firm	123	3.46	425	69.11	20
Marketing	Availability of Limited local market	123	3.45	424	68.94	21
Marketing	Less Variety of goods offered to market	123	3.37	415	67.48	22
Raw Material	Raw material not available	123	3.37	415	67.48	23

Labour	Labour absenteeism	123	3.37	415	67.48	24
Raw Material	Low quality of material available	123	3.37	414	67.32	25
Marketing	Large Scale Industries are providing threat	123	3.20	393	63.90	26
Raw Material	Imports of raw material is difficult	123	1.66	204	33.17	27

Table 3: Analysis of Variance

		Sum of Squares	Df.	Mean Square	F	P	Result
Finance Problems	Between Groups	.386	2	.193	.505	.605	Accept Ho
	Within Groups	45.856	120	.382			
	Total	46.242	122				
Managerial Problems	Between Groups	16.501	2	8.251	7.273	.001	Reject Ho
	Within Groups	136.127	120	1.134			
	Total	152.629	122				
Marketing Problems	Between Groups	7.716	2	3.858	5.097	.008	Reject Ho
	Within Groups	90.828	120	.757			
	Total	98.544	122				
Raw Material Problems	Between Groups	6.243	2	3.122	4.799	.010	Reject Ho
	Within Groups	78.056	120	.650			
	Total	84.300	122				
Labour Problems	Between Groups	9.310	2	4.655	6.002	.003	Reject Ho
	Within Groups	93.060	120	.776			
	Total	102.370	122				
Technological Problems	Between Groups	8.720	2	4.360	4.449	.014	Reject Ho
	Within Groups	117.586	120	.980			
	Total	126.305	122				

VI Results:

Data reveals the fact that unavailability of credit is not being considered as primary concern by the firms, although it is still of the concern area to deal with. Requirement of collateral and working capital management

are among the top two challenges being faced by the majority of the respondents, followed by the complexity of paper work to perform while receiving loan, problems in receiving amount from the debtors, and the competition in the market.

Concerns related to product quality, cost of borrowing, labour cost, use of technology by the competitors, and unavailability of credits are also lying into top 10 ranked concern areas.

While interpreting the results for ANOVA, table shows the calculation of “F” value and “P” value at significance level of 5%. While calculated, sectoral differences are found significant in five out of six variables. The results conclude that the problems related to finance are common irrespective of the nature however remaining other problems vary.

VII Conclusion

Results of the study reveal that availability of finance is not being considered as top most problems for starting a business enterprise, but the procedure for availability of credit well on time is somehow still being considered as bit troublesome. Technological advancements and growing competition in market are definitely posing challenges. Government’s efforts and policies seem worthy as they have been well praised and not being taken among the primary concern areas by the enterprises. But still there is a long way to go and the policymakers are required to make sure the availability and arrangement of advance technologies, and introduction of new markets to MSME’s so that they can grow and sustain to ensure their contribution towards the well being of the economy. Since different MSME units are facing different issues, so the same are required to be addressed specifically and not generally.

VIII Future Directions:

Since this study is majorly being held at eight cities of western Uttar Pradesh, so there is definitely a scope to check the results for a larger sample size, i.e., this study couldn’t be demonstrative of all the MSME units. The analysis is done on the basis of actual responses from the entrepreneurs without any triangulation of the data.

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