



Operational Problems of Micro Small and Medium Enterprises

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Abstract: Micro Small and Medium Enterprises (MSMEs) all over the world have been playing a crucial role in promoting economic development as well as industrial production. In particular, MSMEs proved the necessary foundations for sustained growth and rising income in the less developed and transitional economics. MSMEs financing is a topic of significant research interest to academics and an issue of great importance to the policymakers of India and around the world. MSMEs constitute over 90% of total enterprises in most of the economies and are credited with generating the highest rates of employment growth and account for a major share of industrial production and exports. In India too, the MSMEs play a pivotal role in the overall industrial economy of the country. MSMEs in India account for more than 80% of the total number of industrial enterprises and produce over 8000 value-added products. It is estimated that in terms value, the sector accounts for 45% of the manufacturing output and 40% of the total export of the country. In this study stratified random sampling was adopted with the sample size of 112 MSMEs, and the data was collected with the help of structured questionnaire. The data was further analyzed by using ANOVA and represented through tables. It was found that the major problems MSMEs face are in the form of marketing the products and shortage of working capital

keywords: Challenges, MSMEs, Exports

Introduction:

The Micro, Small and Medium Enterprises (MSMEs) plays a pivotal role in the economic and social development of the country, often acting as a nursery of entrepreneurship. They also play a key role in the development of the economy with their effective, efficient, flexible and innovative entrepreneurial spirit. Despite numerous policy measures taken by the government during the past six decades, most of the problems of SMEs still continue to afflict the sector. The Indian MSME sector has remained mostly tiny, technologically backward and lacking in competitive strength. The business environment has been changing drastically in recent times. MSMEs can play an equitable role only if they run on

sound lines. They are suffering from a number of problems; more or less common to a wide range of enterprises. All industrial units, small or large have to sustain themselves on their own competitive strength and also be commercially viable.

Definition of MSMEs

The Government of India has revised the definition, of small scale industries over the years, presently as per the enactment of the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 in terms of which the definition of micro, small and medium enterprises is as under in Table 1.



Table 1. Micro, Small and Medium Enterprises Development (MSMED) Act, 2006

Enterprises	Manufacturing	Services
Micro	Upto Rs. 25 lakhs	Upto Rs. 10 lakhs
Small	Between Rs. 25 lakhs to Rs. 5 crores	Between Rs. 10 lakhs to Rs. 2 crores
Medium	Between Rs. 5 crores to Rs. 10 crores	Between Rs. 2 crores to Rs. 5 crores

Source: Ministry of MSME

Objective of the study:

1. To determine the key variables specifically affecting the MSMEs.
2. To find out the problems faced by MSMEs
3. To evaluate whether sector wise there exists a significant difference in the problems faced by sample MSMEs To know whether there is any significant difference among the problems faced by MSMEs the hypothesis is tested with the help of ANOVA one way.

Hypothesis of the study

There is no significant difference between the major problems faced among the MSMEs

2: There is significant difference between the major problems faced among the MSMEs

Methodology

Area of Study: In order to select the sample units the prime task before the researcher was to select the districts which should be representative of highly industrialized areas, moderately industrialized areas and also the under developed areas. With this objective the researcher has selected two districts of Andhra Pradesh namely, Chittoor and Kadapa.

Sample Selection: To conduct the study, 112 MSMEs were surveyed pertaining to eight different sectors namely food, chemical, pharmaceutical, engineering, service, plastic, printing and miscellaneous industry were selected.

Collection of Data: Primary data for the study is collected from Micro small and medium enterprises by using a structured questionnaire.

Data Analysis: The information gathered was tabulated and was analyzed by using percentage and ANNOVA one way was used

Reference Period: The data for the study was collected during the period October 2016

Review of Literature: Tarun and Thakur assessed that Indian SSI has to address various issues of technology up gradation, quality improvement in order to stay in competition with LSI. But SSI on account of shortage of capital is forced to compromise on out dated machinery which hampers their productivity and quality of product.

In its report IDBI, ranked the various problems faced by enterprises in Andhra Pradesh, Kerala and Karnataka. The prime problems faced by the enterprises were unavailability of working capital followed by marketing and raw material



problems. Delay in getting finance has also affected the productivity of these enterprises which has led to escalation in cost of production. Ahmed, assessed that in order to emerge prominently on exports front marketing innovations are essential for SSI sector, along with effective application of quality and delivery in production process. These measures would provide the necessary cutting edge for the sector to boost the exports. According to Gyampah and Boye, Small firms usually face different types of environment pressures with regard to market competitiveness compared to larger firms on account of limited resources.

SIDBI in their report, "addressed to ensure sustained growth of SSI sector to withstand emerging pressures which includes issues related to delayed payments, increase in the limit of turnover, exemption from excise duty to SSI units using third party brand name, building competitive strengths, technology up gradation, information dissemination and quality improvement. Bhavani studied the impact of globalization on the different sub-sectors in small enterprises and viewed that, in order to survive SSI should improve productivity, quality, reduce cost and should substantially improve their technology. Dangayach and Deshmukh, considered that Indian SMEs gave highest priority to quality and least priority to flexibility. AMT implementation steps have attracted least attention from Indian SMEs.

Basil recommended that there should be proper co-ordination between federal, state and local governments on policy matters of SMEs. Dasanayaka highlighted the issue of lack of a clear cut

definition for SMEs, as different government bodies, banks, financial institutions and others have their own criteria in defining SMEs. It was felt that SMEs have been forced out of the domestic market in order to facilitate the starting of MNCs.

Gohill, Mike in his article, "Transformation of Indian Small and Business sector", evaluated the problems faced by Indian small business sector in this transformation era, and viewed that less than 5 percent of the small businesses are successful remaining continue to function with various problems, prominent among them is lack of managerial experience of entrepreneurs.

Om Prakash The major challenges for the MSMEs include, challenges of competitiveness in IT including internet, computer based technology, productivity, quality, non-conventional methods of production in manufacturing, easy and timely availability of finance at reasonable rate of interest, marketability of products indigenous and global markets.

The MSMEs problems could be broadly classified into internal and external. The internal problems are those which are the outcome of internal course of management of an enterprise and are related to a single unit whereas external problems are those which are generally faced by all enterprises in the industry and are beyond their control, Desai, V. (2006) Based on the review of literature, the key variables specifically affecting the MSMEs can be broadly classified as financial, managerial, marketing, raw material, technological and labour as shown under.



Problems of MSME's

1. Finance: In external, Non availability of finance access to finance, Excessive collateral security, Discriminative treatment by banks and other FIs compared to LSIs. In Internal, High cost of borrowings, Management of finance, Inadequate finance, Unavailability/insufficient working capital, Recovery from debtors, Diversion of working capital funds for acquisition of fixed assets or vice versa low promoters contribution.

2. Managerial: In external, Locational disadvantage government price controls. Change in government policies, Dealing with government laws. In internal Lack of technical know-how Absence of long term planning, lack of management skills.

3. Marketing: Market saturation Availability of better substitutes, Weak market demand competitive environment of market. In Internal, Lack of Sales promotion, Limited local market, Less variety of goods offered to market, Defective pricing policy, Technology of competitors is superior.

4. Raw Material: In external raw material not available, Fluctuation in cost of raw material, Low quality of raw material, Imports are difficult. In internal, Poor inventory management.

5. Technological: In external, Delay in delivery of machines. In Internal, Obsolete plant and Machinery/Production process, Inadequate infrastructure of the firm, Quality of products being offered to the market is low, Poor capacity utilization, Inadequate maintenance, High wastage.

6. Labour: In external, Unavailability of skilled labour. In internal, Labour Absenteeism/turnover, High rates of wages/salaries, Excessive manpower, Inefficient handling of labour problems,

Poor industrial relations, Lack of coordination and control.

On the basis of pilot survey and discussion with officials in the field from among the above six mentioned variables of financial, managerial, marketing, technological, raw material and labour, 10 different factors are considered for the study. The different factors affecting the operational performance of MSMEs are administered to the sample entrepreneurs and managers of MSMEs on Likert five point scale. For every statement, scores are allotted in the order of 1 for "Very Low", 2 for "Low", 3 for "Moderate", 4 for "High" and 5 for "Very High".

Testing of hypothesis: In order to find out whether there exists any significant difference among the problems faced by different MSMEs, MSMEs are divided into eight different sectors like food, plastic, chemical, pharmaceutical, service, engineering, miscellaneous and printing and the key variables affecting their operational performance of these MSMEs have been grouped into financial, managerial, marketing, technological, raw material and labour. "F" value and "P" value at 5 percent significant level. The calculated value of 'P' 0.000302 at 5 percent significant level is less than 0.05. Hence the null hypothesis that there is no significant difference between the major problems faced among the MSMEs is rejected and it could be concluded that there is significant difference between the major problems faced among the MSMEs.

Ranking of factor affecting operational performance of MSMEs

The key variables affecting the



operational performance of the MSMEs are financial, Marketing, managerial, technological, raw material and labour. In order to identify the factors responsible for operational problems 10 variables were identified. The factors responsible for operational problems in MSMEs are now ranked in order of merit by means of percentage and most influencing variable is ranked in ascending order. The operational problems faced by entrepreneurs of MSMEs which have lead to poor financial performance are identified and responses of entrepreneurs were obtained for the statements. The statements with

reference to factors responsible for financial problems are listed. The scores are obtained for each statement. The total and average scores obtained for each statement and their respective ranks allotted.

As evident from Table 2 the major problem of SMEs is excessive competition in the market at 89.29 per cent, the other important factors responsible for poor operational performance are shortage of working capital 87.50 per cent, quality of products offered to the market 82.68, difficulty in receiving amount from debtors 79.46, high cost of borrowing

Table .2 showing the rank of factors affecting performance of MSMEs

Statistics	N	Mean	Sum	Percent	Rnak
Excessive competition in the market	112	4.46	500	89.29	1
Shortage of Working Capital	112	4.38	490	87.50	2
Quality of products offered to market is low	112	4.13	463	82.68	3
Difficulty in receiving amount from Debtors	112	3.97	445	79.46	4
High cost of borrowing	112	3.86	432	77.14	5
Weak market Demand	112	3.78	423	75.54	6
Unavailability of credit	112	3.76	421	75.18	7
Unskilled labour available	112	3.75	420	75.00	8
Technology of competitor is superior	112	3.74	419	74.82	9
Fluctuation in the price of raw material	112	3.71	415	74.11	10

Conclusion: MSMEs play a major role in the economic development of Indian economy and have become a principal source of employment generation. These MSMEs usually face a wide variety of challenges with Large scale industries and MNCs which are not only obstructing their day to day business but its long term success and survival also. The aim of this study was to determine the key variables specifically affecting MSMEs and the different problems affecting the

operational performance of MSMEs. The operational performance of small and medium enterprises largely depends on two disciplines namely financing and marketing. The MSMEs largely suffers from excessive competition in the market and inadequate financing. The results reflected in the study indicate that excessive competition in the market, weak market demand, marketing of goods is the marketing variables affecting MSMEs. On the other hand, the shortage



of working capital, high cost of borrowing, unavailability of credit, and difficulty of receiving amount from debtors are the key financial variables. The study emphasize that availability of long term finance is not a bigger problem than arrangement of working capital is and secondly the repayments of financial liabilities are worrying and disappointing due to low paying capacity and insignificant sales.

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