

Operational Problems of Micro Small and Medium Enterprises

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Abstract:

MSMEs play a crucial role in the Indian economy by contributing about 60 percent of the total employment, 40 percent of GDP and more than 50 percent of total exports. Although there is a considerable increase in the number of MSMEs but there are numerous challenges associated with their growth, this research paper explores the specific challenges encountered by the MSME sector. 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

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 operational 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

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

Ha: 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 Telangana namely, Hyderabad and Rangareddy.

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 2014

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 outdated 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 lead 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.

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 in Table 2.

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)

Table 2 Problems of Micro Small and Medium Enterprises		
Problems	External	Internal
Finance	Non availability of finance Access to finance Excessive collateral security Discriminative treatment by banks and other FIs compared to LSIs.	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 Excessive paper work while availing loan from FIs
Managerial	Locational disadvantage Government price controls. Change in government policies Dealing with government laws	Lack of technical know-how Absence of long term planning Lack of management skills
Marketing	Market saturation. Availability of better substitutes Weak market demand Competitive environment of market	Lack of sales promotion Limited local market Less Variety of goods offered to market Defective pricing policy Technology of competitors is superior Price of the product is high Dependency on large scale industries Lack of marketing research Dependency on a small group of customers

Raw material	Raw material not available Fluctuation in cost of raw material Low quality of raw material Imports are difficult	Poor inventory management
Technological	Delay in delivery of machines	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 Transport bottleneck Poor delivery schedules and lack of proper distribution system
Labour	Unavailability of skilled Labour	Labour Absenteeism / turnover High rates of wages / salaries Inefficient handling of labour problems Excessive manpower 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.

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.

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

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

ANOVA							
		Sum of Squares	df	Mean Square	F	P value	Result
Problems	Between Groups	2200.155039	7	314.3078628	4.333258	0.000302	Reject Ho
	Within Groups	7543.519246	104	72.53383891			
	Total	9743.674286	111				

Table 3 shows the calculation of "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 is shown in table 5

As evident from Table 4 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 77.14 per cent etc.

Table No. 4 showing the rank of factors affecting operational performance of MSMEs					
Statistics	N	Mean	Sum	percent	Rank
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

The different problems are shown in different colours.

Green: Marketing, Red: Finance, Blue: Labour, Black: Raw Material, Orange: Technology.

Managerial problem could not find place in the top 10 rank.

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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