

CHALLENGES AND OBSTACLES FACED BY MICRO, SMALL AND MEDIUM SIZED ENTREPRISES (MSMEs) IN INDIA

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ABSTRACT: 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. Indian MSMEs contributes around 8% in the GDP and provide employment to approximately 595 lakhs people. Still MSMEs have to follow a long path, which is not free from challenges. Role of MSMEs become very crucial in the light fact that in India public and private firms are not able to provide employment as per the required rate. Thus, the there is strong need to restructure and strengthen MSMEs sector and government should put more effort in this direction.

KEY WORDS: MSME, GDP, Employee Management, Skilled manpower, working capital

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I. INTRODUCTION

For a sustainable growth and development of country, people should migrate from agriculture to industry and further to service sector, and in this migration development of Micro Small and Medium Enterprises (MSMEs) can play a significant role (Ramarao, R.2012). It is obvious and well-accepted fact that MSMEs can contribute a lot in the economical development of the country. Micro Small and Medium Enterprises (MSMEs) has been defined in various manners in different countries. In Indian context, Micro Small and Medium Enterprises Development (MSMED) Act, 2006, provides a well-accepted definition of MSMEs. This act defined Micro, Small and Medium enterprises based on their investment in plant and machinery (for manufacturing enterprise) and on equipment for enterprises providing or rendering services (Table 1).

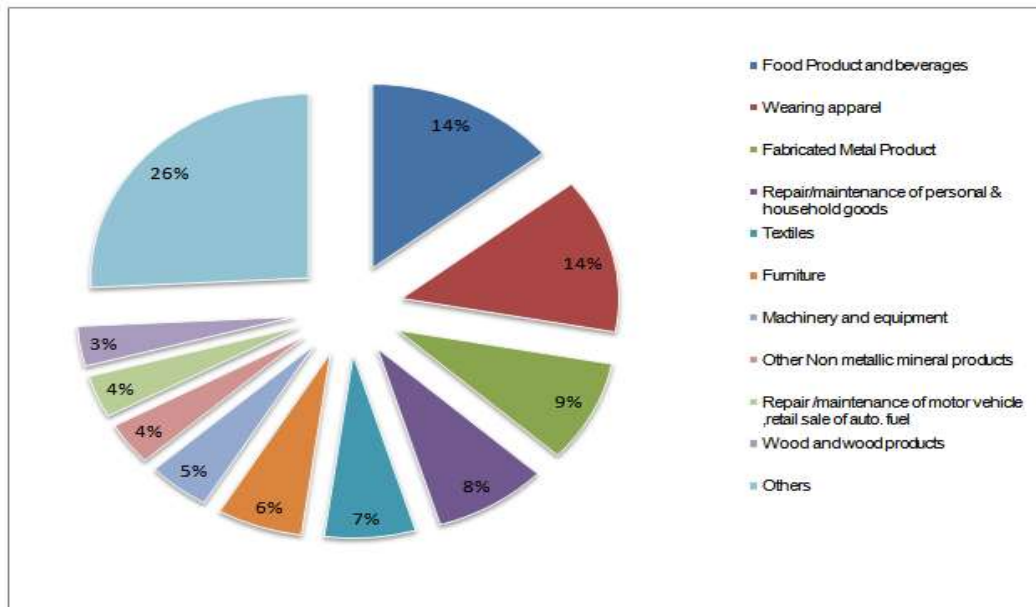
Table 1

Classification	Manufacturing Enterprises*	Service Enterprises**
Micro	Rs. 2.5 million / Rs. 25 lakh	Rs. 1 million / Rs. 10 lakh
Small	Rs.50 million / Rs. 5 crore	Rs. 20 million / Rs 2 crore
Medium	Rs 100 million / Rs 10 crore	Rs. 50 million / Rs 5 crore

* Investment limit in Plant & Machinery ** Investment limit in equipment

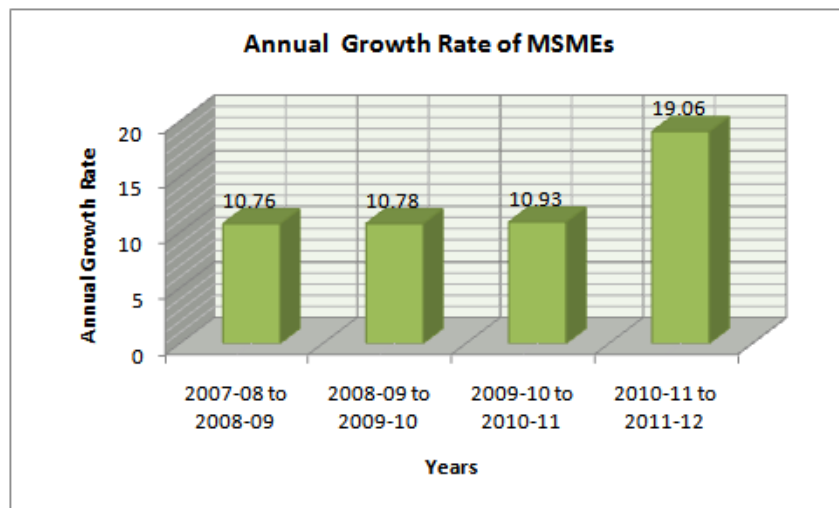
Source: MSME Annual report 2011-12 pp.316.

Organizations engaged in manufacturing sector and investing Rs. 25 lacs, 5 Crore and 10 Crore, in plants and machinery are classified as micro small and medium enterprises respectively. Similarly organizations engaged in service sector and investing Rs. 10 lakh, 2 Crore and 5 Crore, in equipments are classified as micro small and medium enterprises respectively. The growth of any country is definitely related to growth of their MSMEs sector. In Indian context, MSMEs contributes significantly to the growth of country. MSMEs provides great opportunities for self-employment as well as wage employment. According to an estimate (MSME annual report 2011-12), the sector accounts for about 45 per cent of the manufacturing output and 40 per cent of the total exports of the country along with providing employment to about 595 lacks persons in over 261 lacks enterprises throughout the country. There are more than 6000 products produced by organized MSMEs sector in the country (Fig.1).



Source: Source: - Final Report of the Fourth All India Census of Micro, Small & Medium Enterprises.

As per the report of development commissioner, MSME, titled Entrepreneurs Memorandum (Part-III) Data On MSME Sector (2011-2012), MSMEs has been able to maintain an outstanding growth rate. In the year 2011-12, the growth rate was 19 %, it was doubled as compared to the previous year's growth rate. (Fig. 2).



In India there is approximately 15.64 lacks registered MSME comprising 94.94% as micro, 4.89 % as small and 0.17% as medium enterprises. Among these units 10.49 lacks (67.10 %), are concern with manufacturing, 2.62 lacks (16.78%) concern with services and 2.52 (16.13%) concern with repairing and maintenance. (MSME Annual report 2011-12).

MSME's Contribution towards GDP in 2008-09 was 8.72%, and contribution in Total industrial production in 2008-09 was approximately 45 % (Table 2).

Table 2

Year	Contribution of MSMEs (%), at 1999-2000 prices in	
	Total Industrial Production	Gross Domestics Product(GDP)
2004-05*	38.62	5.84
2005-06*	38.56	5.83
2006-07	45.62	7.2
2007-08	45.24	8
2008-09	44.86	8.72

*The data for the period upto 2005-2006 is for Small Scale Industries (SSI)

This sector has consistently registered a higher growth rate than the rest of the industrial sector. MSMEs are providing employment, contributing to countries GDP, and they possess AGR of 19% .But despite these facts MSMEs are not able to contribute in economical growth of country upto the extent , which they could. Reason being that there are numerous obstacles that hindered the entrepreneurial activity in the country. As far as India's rank is concern in world community about entrepreneurial activities, it has 85 th rank(see GEDI-2012 Index), it shows country's poor position in the context of innovation and ease of doing business . Without a strong MSME sector, India cannot have a high growth prospects (Sharma, 2012). India has to follow a long path in this direction, so that MSMEs contribution in economic development of the country can be increased. Although Indian MSMEs are contributing around 8 % in GDP and 45 % in industrial production. If we compare these figures from other countries like China, Japan and Korea, where MSMEs contribution to GDP is 60%, 56.8%, and 46% is respectively, then we find that we need to do a lot more in this direction. Growth of MSMEs is not only limited to contribution in GDP but it will also help in reducing unemployment in the country. As per the report by The Committee on Angel Investment & Early Stage Venture Capital on Creating a Vibrant Entrepreneurial Ecosystem in India (June 2012), the employment creation potential in public and private firms in India is not too much encouraging. Therefore it becomes very significant that in such circumstances we should put much more focus on MSME development to encounter the unemployment situation of the country. Presently there are more than 88,500 sick Micro, Small and Medium Enterprises (MSMEs) in India .The causes for the sickness includes, poor infrastructures, poor financing service, competition etc. In this regard this study summarizes the challenges faced by MSMEs, not only in India but also outside the India. So that we can have a versatile categories of challenges faced by MSMEs, which will guide policymaker to formulate policies accordingly.

The objective of this study is to summarise the challenges faced by MSMEs, so that policymakers can frame the policies accordingly, subsequently MSMEs contribution to economical growth of the country can be increased. To attain this objective we have reviewed the literature related to MSMEs challenges of India as well as abroad, so that we can have a versatile base of challenges.

II. A BRIEF REVIEW ON CHALLENGES FACED BY MSMEs IN INDIAN CONTEXT:

There are were scholars who contributes a lot for identifying challenges faced MSMEs .

Hussain. (2004), considered that removal of QR (quantity restriction) under the impression of WTO as a challenging factor to the growth of SME's. Torri. (2012), argued that limited transportation services and communication networks, are the leading challenges for MSMEs especially in rural India. Das, K. (n.d.), added that most persisting challenges faced by MSMEs includes, poor / non-availability of loan finance; low levels of technology; inadequate physical and economic infrastructure; and a truncated policy of product reservation. Das, Shil, & Pramanik. (2007), identified major challenges faced by MSMEs in the path of internationalization : lack of entrepreneurial, managerial and marketing skills; bureaucracy and red tape; lack of accessibility to information and knowledge; difficulties accessing financial resources/lack of capital; lack of accessibility to investment, technology equipment and know-how; non-conformity of standardization; lack of quality awareness and lack of mutual recognition schemes; product and service range and usage differences; language barriers and cultural differences; risks in selling abroad; competition of indigenous SMEs in foreign markets; ;inadequate behaviors of multinational companies against domestic SMEs;lack of government supply-supporting programs; complexity of trade documentation including packaging and labeling; lack of government incentives for internationalization of SMEs, and inadequate intellectual property protection . As per report of Dern and Bach, (2013), key challenges faced by the MSME sector in India includes, lack of availability of adequate and timely credit;high cost of credit; collateral requirements; limited access to equity capital; procurement of raw material at a competitive cost; problems of storage, designing, packaging and product display, ;lack of access to global markets; inadequate infrastructure facilities, including power, water, roads, etc; low technology levels and lack of access to modern technology; lack of skilled manpower for manufacturing, services, marketing, etc, and multiplicity of labour laws and complicated procedures associated with compliance of such laws. Bhavani, (2002), suggested that small units not only need to upgrade their technologies immediately but should also keep track of the changes in technologies. As per report on Empowering SMEs for Global Competitiveness by **SME Chamber Of India** SMEs faces a number of problems which includes: absence of adequate and timely banking finance, limited capital and knowledge, non-availability of suitable technology, low production capacity, ineffective marketing strategy, identification of new markets, constraints on modernisation & expansions, non availability of highly skilled labour at affordable cost, follow-up with various government agencies to resolve problems etc. Bihari,(2011), insisted that lack of professionally managed top management , difficulties in accessing capital, complexities at product and service level ,lack of technological knowhow, Improper training and poor employee management, are the key challenges of MSMEs. Singh, Garg, & Deshmukh, (n.a.), highlighted that research and development front of MSMEs as strongest weakness by adding that SMEs in developed countries give maximum focus for product and process innovation, IT tools and R&D .Similarly ,

A.A.Mulimani, Belgaum, & Morakar, (2012), argued that mostly MSMEs are facing problem of shortage of raw materials, low levels of technical knowledge and counseling, poor infrastructure, inadequate capital and credit facilities, improper distribution system, lack of facilities for market analysis, and research and development in India. Das, B., Shil, N.C., and Pramanik, A., (2007), identifies the challenges at the front of MSMEs export competitiveness, and argued that MSMEs poor export performance is a consequence of factors like , product reservation, improper regulatory policies at the entry and exit stages, lack of sufficient finance at affordable interest rates, rigid labor markets and infrastructure issues like power tariff and lack of export infrastructure.Lokhande, (2011), argued that MSMEs in India are suffering from the situation of indebtedness and there is lack of convenient access to credit .As per report on MSMEs challenges by the UP state Govt. the challenges faced by MSMEs in Indian context includes, Low rate of IT adoption ,The lack of infrastructure, logistics and marketing support, lack of adequate information ,improper new product development, Highly inadequate credit flow, Non-exposure to best management practices in manufacturing, marketing, distribution and branding, Lack access of packaging technologies , Lack of Skilled Human Resources ,poor credit facilities, high interest rates, etc. absence of skilled manpower , Non- availability/ difficulty in procuring construction materials like cement steel etc, Delay in getting power connection , water connection , permission of concerned authorities to discharge effluents , etc . Non- availability of raw materials or increase in the price of raw materials without a corresponding increase in sale price of the products. Introduction of better substitutes. Entry of many new manufacturers leading to cut-throat competition , Poor quality of products, Lack of sales promotion, Poor delivery schedules and lack of proper distribution system. Inadequate bank finance. Diversion of working capital funds for acquisition of fixed assets Absence of work force planning, poor industrial relations. Non- availability of skilled man- power.

III. DISCUSSION

On the basis of above literature review regarding MSMEs challenges, we have categorizes challenges in to 09 different categories. Each category is consisting of specific problems, resulted to poor MSMEs performance (Table 2).

PRODUCT RELATED CHALLENGES	<ul style="list-style-type: none"> • Removal of quantity restriction. • Non-conformity of standardization/lack of quality awareness/Poor quality of products . • Product and service range and usage differences. • Complexity of trade documentation including packaging and labelling. • Problems of storage, designing, packaging and Product display/Lack access of packaging technologies. • Introduction of better substitutes.
R&D/MANUFACTURING/DISTRIBUTION RELATED CHALLENGES	<ul style="list-style-type: none"> • Low production capacity. • R&D shortage. • Improper distribution system. • Poor delivery schedules and lack of proper distribution system.
TECHNOLOGICAL / IPR RELATED CHALLENGES	<ul style="list-style-type: none"> • Limited communication networks. • Low levels of technology. • Lack of accessibility to information and knowledge. • Lack of accessibility to investment technology equipment and know-how. • Low technology levels and lack of access to modern technology. • Inadequate intellectual property protection.
GOVT.POLICY/ INFRASTRUCTURE RELATED CHALLENGES	<ul style="list-style-type: none"> • Bureaucracy and red tape. • Lack of government supply-supporting programs. • Delay in getting power connection, water connection, permission of concerned authorities to discharge effluents, etc . • Inadequate physical and economic infrastructure. • The lack of infrastructure, logistics and marketing support.

FINANCE RELATED CHALLENGES	<ul style="list-style-type: none">• Poor / non-availability of loan finance• Difficulties accessing financial resources/lack of capital.• Lack of availability of adequate and timely credit.• Limited access to equity capital.• Limited capital and knowledge.• Difficulties in accessing capital.• Lack of sufficient finance at affordable interest rates.• Highly inadequate credit flow.• Diversion of working capital funds for acquisition of fixed assets.
MANAGERIAL/MARKETING RELATED CHALLENGES	<ul style="list-style-type: none">• Lack of entrepreneurial, managerial and marketing skills/lack of professionally managed top management• Ineffective marketing strategy• Identification of new markets• Constraints on modernisation & expansions• Lack of facilities for market analysis• Improper new product development• Non-exposure to best management practices in manufacturing, marketing, distribution and branding• Lack of sales promotion• Lack of adequate information• Entry of many new manufacturers leading to cut-throat competition
LABOR RELATED CHALLENGES	<ul style="list-style-type: none">• Lack of skilled manpower for manufacturing, services, marketing, etc.• Multiplicity of labour laws and complicated procedures associated with compliance of such laws.• Non availability of highly skilled labour at affordable cost.• Improper training and poor employee management.• Rigid labour markets.• Absence of work force planning, poor industrial relations.
RAW MATERIAL RELATED CHALLENGES	<ul style="list-style-type: none">• Procurement of raw material at a competitive cost.• Shortage of raw materials.• Non-availability/ difficulty in procuring construction materials like cement steel etc.• Non-availability of raw materials or increase in the price of raw materials without a corresponding increase in sale price of the products.
EXPORT RELATED CHALLENGES	<ul style="list-style-type: none">• Language barriers and cultural differences• Risks in selling abroad• Competition of indigenous SMEs in foreign markets• Inadequate behaviors of multinational companies against domestic SMEs• Lack of access to global markets• Lack of government incentives for internationalization of SMEs• Improper regulatory policies at the entry and exit stages• Infrastructure issues like power tariff and lack of export infrastructure

Ramarao, R. (2012) argued that the path of moving from agriculture to industry to services , which was adopted by US, Germany, and Japan in the past and Korea, Taiwan in the recent time , is the same as today India is following. This movement can bring sustained development in India, but realization of this objective is possible only through a developed MSME sector in the country. (Esteve-Pe´rez & Rodrı´guez, 2012) argued that export related practices of a firms shows its success and competitiveness, they further added that export and R&D practices are related to each other therefore it is important that , policymakers should consider this interdependence while designing and implementing the R&D and export promotion policies rather than implementing separate policies for each activity. Combs, J., & Liu, Y. (2006), suggested that better implementation of High performance work practices (HPWPs) leads to better performing organisations in terms of financial and employee outcomes. But HPWPs in case of small enterprises found to be quite low (Kauhanen, A. 2009; Way, S. A. 2002). Therefore it will be beneficial for Indian MSMEs to implement better HPWPs so that they can face challenging issues related to financial as well as human resource management in a better way. As per the information based on 4th all India MSMEs census, there are approximately 92.77% units, who had no finance or depended on self finance. Hence there is strong need of financial inclusion in the country. Govt. Should design and implement strong policies in this direction. In order to develop an environment in which MSMEs can grow we need to devise nurture entrepreneurs at the level of school/colleges/universities. Presently there are only some few institutions that are moving in this direction, but the number is very few this culture should be spread over the country. Govt. should remove the red tape culture and process of setting an enterprise should be simplified. Not only set up of enterprise but other related facilities like power connection, water connection , and permission of effluent discharge etc. Take too long time. These factor negatively affect the MSMEs development environment. Therefore, govt. should address these issues while formulating the strategies. Indian MSMEs are far behind at the front of market orientation and related practices. Gaur, S. S., Vasudevan, H., & Gaur, A. S. (2011). pointed the lack of research exposure on market orientation issue in the context of MSMEs. Therefore it is strongly recommended that as far as product development and other marketing related issues are concern more awareness is required in this direction and along with govt. academic institutions and researchers should also be involved in such type of areas, so that the degree of negligence could be reduced.

IV. CONCLUSION

We have seen various challenges faced by MSMEs in this context, which are requiring a conscious effort and action plan. Some of the common challenges includes issues like: Poor High Performance Work Practices (HPWP), Obstacles in export orientation, Inadequate Capital , Complex managerial activities , Improper information handling ,Improper Policy framework ,marketing related problems, Inability to separate business and family or personal finances , Highly inadequate credit flow, Non-exposure to best management practices in manufacturing, marketing, distribution and branding , Lack access of packaging technologies , and Lack of Skilled Human Resources etc.

To address these issues there are various measures formed by Government but still there is a long way to go. There is a strong requirement of such policies through which the challenges of MSMEs can be encountered .To do so two things are very important –

1. Strong commitment from the side of policymakers and implementers, and
2. Attention of researcher in such kind of issues which are related to MSMEs.

As far as India is concern, there is very less and immature literature available for MSMEs

Beside these things we need to develop a entrepreneurial friendly environment in the country, and things should be started from academic institutions. Because academic institutions can become a source of sound entrepreneurs, this breed of entrepreneurs can handle most of the challenges in much more better way. And last but not the least efforts should be make to grab more attention of researchers in MSMEs sector , so that various dimensions of MSMEs business can be deeply analyzed and accordingly policy makers can make policies. So as many as researchers should be motivated to conduct research in this field.

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