

PROBLEMS OF MICRO, SMALL, MEDIUM ENTERPRISES

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ABSTRACT:

Micro, small, medium enterprises which are under sector of Small Scale Industry sector, are meant as vital constituent of the total Industrial sector of India and acts as a nursery for the development of entrepreneurial knowledge, constituting remarkably to the national GDP, besides meeting the other Social Objective including that of providing employment opportunities to millions of people across the nation. So, in Rural Regions of the nation we stand committed for providing urban amenities.

Micro, Small and Medium Enterprise (MSME) sector is the growth engine of Indian economy. It has received due attention of policy makers of the country due to its share in national exports, employment and GDP. In manufacturing sector, MSMEs constitute 95 per cent of the total industrial units. Hence enhancing the competitiveness of this sector has become the priority of the Government of India.

B2B e-marketplace is an ICT innovation that facilitates MSMEs to market their products on the internet. On one hand, e-marketplace provides several benefits to MSMEs such as access to broader market, ability to enter supply chain of large companies, access to information at single source and the like. On the other hand, researchers opine that e-marketplaces increase competition among MSMEs and benefits of participation in e-marketplace are higher to large buyers. As use of B2B e-marketplace by MSMEs in India, is in growth stage, there is a need to understand the perceptions and experiences of MSMEs with B2B e-marketplaces. Even though there are empirical studies on adoption of B2B e-business, majority of them either focus on large firms or electronic business in general. There is lack of empirical studies on adoption of B2B e-marketplaces in India, especially in the context of small firms.

Concerning on the problems faced by MSME's, there are numbers .of problem that all micro, small and medium enterprises are to deal with like lack of credit from banks, competition from multi national companies, poor infrastructure, unavailability of raw materials and other inputs, lack of advance technology, lack of distribution of marketing channels, lack of training and skill development programs, also there are many more problems for the existing MSME's like absence of adequate and timely banking finance, limited capital and knowledge, non-availability of suitable technology, low productive capacity, ineffective marketing strategies, constraints on modernizations and expansions, non-availability of skilled labour at affordable cost and many other minor problems.

INTRODUCTION

Micro, Small and Medium enterprises (MSMEs) have played an imperative role in the economic activities of highly developed industrialized countries like Japan, Germany, Great Britain and the United States of America. In developing economy like India, where agriculture is main source of livelihood, poverty and unemployment is prevailing all over. In order to eradicate poverty and unemployment, manufacturing sectors has to develop obligatory. Both in developed and developing countries, Small scale industries or micro, small and medium enterprises have been documented as noteworthy contributors in satisfying various socio-economic objectives such as higher growth of employment, promotion of exports

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and fostering entrepreneurship. These enterprises are nursery for entrepreneurship and seedbed for future growth. The MSMEs sector is a key pillar of an Indian economy.

Jammu and Kashmir is located in northern of India, covered with Himalayan Mountains. The political, climatic and geographical conditions of the state are absolutely different from other states. Unfortunately, J&K is not able to attract investment in secondary sector and remained industrial backward state. The political instability and poor infrastructure are key causes of industrial backwardness. The armed conflict has not only taken the precious lives but also it has shaken the economy of the state from its roots. The educated unemployment level of the state is growing day by day, due to backwardness of manufacturing sector. Large scale industries are absent in state [3]. Only micro, small and medium enterprises are growing with the efforts of centre and state governments. The number of small scale industrial units as on November, 2014 registered with the State Directorate of Industries and Commerce is more than fifty seven thousands providing employment opportunities to 2.77 lakhs people. The opportunities for MSMEs are adequate in the state, the availability of raw material and cultural conditions are supporting those enterprises. But the blockages in path of industrialization like climatic conditions, poor infrastructure, political instability, shortage of raw material, lack of skilled labour, financial problems etc. are main hurdles in the swiftness of industrial sector in state.¹

The recent budget passed by the government to the states, includes approximately 20-25 percent of share to the micro, small, medium enterprises, so as to promote the hike in micro, small, medium enterprises. As far, concern of government towards these micro, small, medium enterprises is sign that this sector is so called to be considered as one of the most important sector in the development field.

New classification of small scale industries was done on the basis of investment, in India. According to small scale industries definition by MSME Development Act, 2006 under the section of 7, small scale industries are divided into three enterprises; according investment like Micro, Small and Medium enterprises.

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Presently, the Indian MSME'S are facing different types of problems. Most of the problems are controllable while rests are uncontrollable. Based on data analysis and study of the related literature the MSME'S problems can explain as follows:-

- **Lack of credit from banks**-The MSME'S are presently facing the problems of credit from the banks. The banks are not providing the adequate amount of loan to the MSME'S. The loan providing process of the banks is very long and formalistic. The owners of the MSME'S has to produce different types of documents to prove their worthiness. The banks are providing on an average 50% total capital employed in fixed assets. The cost of credit is also high. Also being under the sector of small scale industries, these micro and small industries are to face many rejections from the financial institutes to get availed by any of the credit facility which involves a bit sound amount as the sound amount consist of sound interest too, which is near to impossible to be payed by such micro and small industries.
- **Competition from multinational companies**- In present era of globalization, the MSME'S are facing the great from the international manufacturing companies who are proving quality goods at cheapest price. Therefore, it is very difficult to compete with the multinational companies. Holding a good market in today's era needs to be having a perfect market research time to time and fulfilling the need of the market according to the demand of the market. For obvious experience of maintaining the constant place of the product's sale is to be known by the industries. This awareness of market knowledge is quite perfect by all the multinational companies, where it gives a very tough competition to the micro and small industries.

¹ <https://www.omicsonline.org/open-access/growth-challenges-and-issues-related-to-micro-small-and-mediumenterprises-msmes-in-jammu-and-kashmir-2151-6219-1000328-95812.html> (last modified : 27-11-20117)

- **Poor infrastructure**-Though, MSME`S are developing so rapidly but their infrastructure is very poor. With poor infrastructure, their production capacity is very low while production cost is very high. Every industry whether it is micro, small or medium is to possess a very sound quality area in size and cleanliness too. Infrastructure of any industry, whatever of scale it is must be clean n a little bigger than its plants area. But having improper facility of credit by bank to these small and micro industries they are not able to spend a sound amount on their infrastructure.
- **Unavailability of raw material and other inputs**- For MSME`S required raw material skilled work force and other inputs, which are not available in the market. Due to unavailability of these essentials, it is very difficult to produce the products at affordable prices.
- **Lack of advanced technology**-The owners of MSME`S are not aware of advanced technologies of production. Their methodology of production is outdated. The owners are using older method in the field of fabricated metal and textile.
- **Lack of distribution of marketing channels**-The MSME`S are not adopting the innovative channels of marketing. Their advertisement and sales promotion are comparatively weaker than the multinational companies are. The ineffective advertisement and poor marketing channels leads to a very poor selling
- **Lack of training and skill development programs**- The training and development programs in respect of uniform labour laws to each MSME. The must be so the running of the concern not to create a problem for them. Every effort must do to avoid the unnecessary red tape.²

Small and Medium Enterprises (SMEs) play a vital role for the growth of Indian economy by contributing 45% of industrial output, 40% of exports, employing 60 million people, create 1.3 million jobs every year and produce more than 8000 quality products for the Indian and international markets. SME`S Contribution towards GDP in 2011 was 17% which is expected to increase to 22% by 2012. There are approximately 30 million MSME Units in India and 12 million persons are expected to join the workforce in the next 3 years.

Despite of the importance of the MSMEs in Indian economic growth, the sector is facing challenges and does not get the required support from the concerned Government Departments, Banks, Financial Institutions and Corporate which is proving to be a hurdle in the growth path of the MSMEs. The lists of the problems that are faced by existing/new companies in SME sector are as under:

1. Absence of adequate and timely banking finance
2. Limited capital and knowledge
3. Non-availability of suitable technology
4. Low production capacity
5. Ineffective marketing strategy
6. Constraints on modernization & expansions
7. Non availability of skilled labour at affordable cost
8. Follow up with various government agencies to resolve problems due to lack of man power and knowledge etc.

It is very important to empower the SME sector to utilize the limited resources (human & economic) they have in an optimum manner. The SMEs need to be educated and informed of the latest developments taking place globally and helped to acquire skills necessary to keep pace with the global developments. SMEs are now exposed to greater opportunities than ever for expansion and diversification across the sectors. Indian market is growing rapidly and Indian entrepreneurs are making remarkable progress in

² [http://www.scienceandnature.org/IJEMS-Vol5\(2\)-Apr2014/IJEMS%20Vol5\(2\)-8.pdf](http://www.scienceandnature.org/IJEMS-Vol5(2)-Apr2014/IJEMS%20Vol5(2)-8.pdf) (ISSN :2229-600X)

various Industries like Manufacturing, Precision Engineering Design, Food Processing, Pharmaceutical, Textile & Garments, Retail, IT and ITES, Agro and Service sector.

To counter the challenges faced by SME sector and grab the opportunities in the market, the Chamber has developed key strategies to promote and support the SME sector. The Chamber encourages SMEs to adopt innovative ideas and concepts for the promotion of their business. The goal of the Chamber is to organize Seminars, Conferences, Workshops and Training Programs and other trade promotional activities to educate & create awareness amongst the SMEs. CIMSME has decided to start various activities to empower and educate the SME Sector by organizing various trade promotional activities.³

SUGGESTIONS FOR IMPROVEMENT

According to our study and the annual reports of MSME'S, we strongly recommend the following suggestions for the growth and development of the MSMEs in India:

➤ **Mutual Supply of Technologies:** A number of appropriate technologies for the MSME sector have developed in various sectors. While each MSME has its areas of strengths and weaknesses, therefore, it would be mutually valuable if already developed technologies made available to each other. A comprehensive list of all sorts of technologies should be prepared and made available accordingly to the MSMEs requiring it.

➤ **Constitution of a Panel of Consultants:** For the purpose of technological advancement and guidance a panel of experts and consultants should be prepared, who can help the MSMEs within the region for effectively transfer the available technologies. The constitution of panel of these consultants could be nature wise of the activities of the MSME .At the time of constitution of panel of experts, there should be inclusion of the owners of different sectors of MSME'S.

➤ **Determination of Technological Needs:** There should be detailed survey to assess the technical and financial needs of the MSME. So that, the proper arrangement could be make to fulfill the needs of the MSME'S.

➤ **Training and development, awareness programs:** There must be conduction of training and development programs by the MSME ministry. The currently running programs are not so effective and sufficient. One of the important reasons for slow intake in the utilization of schemes is the lack of knowledge about schemes and their likely benefits. The current knowledge dissemination system is limited in its outreach. There is a need to develop a better communication strategy and use of new age media tools.

➤ **Sufficient availability of the credit-** Our banking system does not provide sufficient amount of credit to fulfill their requirement of establishment of MSME and as well as not for the operational activities. Therefore, there must be availability of credit according to the requirement at cheaper rate.

➤ **Relaxation in labour laws and red tape-**There should be relaxation in complex labour laws to avoid the inconvenience in compliance. There should not be 12 there is 28.29% growth in the market value of fixed assets while 27.81% growth in gross output produced by MSME'S The law of marginal returns is not being apply on this area. So, The foreign investment can easily be attracted. However, presently, Indian MSME'S are facing the various problems at different levels. The MSME owners are not innovative and their entrepreneurial skills are very low. Ultimately, the government is not providing any types of satisfactory training or skill development schemes. The problem of unawareness towards technological advancement can removed after running effective training and skill development programs. There should be low cost credit to the MSME'S. The foreign banks are not taking so much interest in sanctioning loan to the MSME sector. The outstanding bank credit is less than 50% of total fixed assets employed in MSME'S while the owners invest their own fund in working capital. The rules and regulations related to labour laws must be relaxed. The panel of experts must constitute to assess the status and the needs of the MSME'S. The future of MSME sector in India is bright and it will grow the economy⁴.

³ https://www.indiansmechamber.com/challenges_to_msme.php (last visited : 26-03-2019, 11:27)

⁴Supra at note 2

OPPORTUNITIES

➤ Exposure to foreign markets

Globalization has opened up the economy and integrated it with the world economy. The MSMEs enjoy the benefits of selling their products and services to the world market rather than being confined into domestic market. The free economy ushers in accessibility to bigger markets, greater linkages for SMEs with larger companies and marketing outfits, improved manufacturing techniques and processes.

➤ Flow of foreign investment and technology

The MSMEs in India suffer from outdated technology and sub-optimal scale of operation. Many foreign companies have tied up with Indian MSMEs and helped them to use better technology, managerial skill etc. Thus, a proper collaboration between the small and large companies can help small firms to develop technology base through Research & Development activities, contribution from the technological institutes, universities etc.

➤ Emerging areas of business

MSMEs have been able to identify many uncommon but highly promising business areas like outsourcing, medical transcription, clinical research trials, sub-contracting, ancillarization and many new technologies like biotechnology, nanotechnology etc which are attractive for the new generation MSME entrepreneurs.

➤ Less Government Intervention

As the economy is mainly market driven; there is less Govt. intervention, red tapes, less control on import and export etc. The MSMEs would be allowed to work in a free environment.

➤ Employment generation

Being labour-intensive in nature, the MSMEs make significant contribution in employment generation and expanding industrial network in rural areas. This sector nurtures the traditional skills and knowledge based small and cottage industries. The workers inherit and transfer skills from generation to generation. The handicrafts and other products produced by this sector have good demand in market. The MSMEs have been a good source of employment generation and can be even more if the sector gets support in terms of infusion of technology, capital and innovative marketing techniques etc.⁵

➤ Better performance by the MSMEs

Before globalization, the MSME sector was a highly protected sector. Suddenly, after globalization they discover that many of such protective measures were withdrawn and they have to fight for their existence. This competitiveness in domestic and global market may bring out superior performance. MSME has contributed towards the economy of the nation, which is discussed below

MSME'S CONTRIBUTION TO INDIAN ECONOMY

Growth of the Indian economy has accelerated to 8% and efforts are on to further propel it to 10%. Undoubtedly, all the segments of the economy, viz. agriculture, industry and services have to improve their contribution to the economy. Growth of Micro, small and medium enterprises (MSMEs) is a sine qua non for the growth of industry, exports and other segments of the economy. Furthermore, promotion of entrepreneurship is also vital for sustenance and upward movement of the current growth trajectory of the economy. The MSME sector acts as a catalyst in upholding and encouraging the creation of the innovative spirit and entrepreneurship in the economy, thereby helping in laying the foundation for rapid industrial development. Moreover, the sector also serves the vital objectives of employment generation and balanced regional development.⁶

➤ Better Customer Satisfaction

As the domestic market gets competitive, small and medium firms try to satisfy the consumers in every possible way. They try to produce products as per the needs and preferences of the consumers and satisfy the customers in best possible way.

➤ Short and long term capital

⁵ http://www.rtc.bt/Conference/2012_10_15/6-RajibLahiri-MSMEs_in_India.pdf (last visited on 26-03-2019, 11:54)

⁶ <http://C:/Users/LAWLAB35/Downloads/PTUConferencePaper2013> (last visited on 26-03-2019, 12:08)

In a liberalized economy, banks would try to find out new avenues of giving credits to increase their profitability. Thus, supply of funds may be easier. Development in money market would initiate development in capital market.

➤ **Export contribution**

The products produced by MSME sector (like sports goods, readymade garments, woolen garments and knitwear, plastic products, processed food and leather products, handicrafts etc) have an excellent foreign market. As per the results of fourth MSME census (2006-07), this sector has registered an export earning of Rs 202017 cr. in 2007-08.

➤ **Removal of Regional disparity**

People from remote areas have the tendency to migrate to urban areas in search of jobs. This creates excessive pressure on urban areas and initiates social and personal problems. This problem can be addressed by setting up a network of micro, small and medium enterprises in economically backward areas. MSME sector can take care of local needs, improve economic condition of the area and most importantly, can bring a qualitative change in the economy of the country.

➤ **Better industrial relations**

The MSMEs are less prone to industrial disputes. However, the truth behind the scene is the workers in small sectors are mostly from unorganized sector and cannot raise their voice collectively. Thus, apparently, they share harmonious relation with the firm owners.⁷

➤ **Creating platform for the first-time investors**

Being in criteria of micro and small industries, MSME's are the best opportunities for the first time investors. Risk factor is the biggest fear to every new comer when one is investing for the first time. So these plans for setting up industry onto small and micro level are letting the new investors to be in a comfort zone.

CONCEPT OF INTEREST MULTIPLIER IN MICRO, SMALL, MEDIUM ENTERPRISES

➤ **Date from which and rate at which interest is payable. –**

Where any buyer fails to make payment of the amount to the supplier, as required under section 15, the buyer shall, notwithstanding anything contained in any agreement between the buyer and the supplier or in any law for the time being in force, be liable to pay compound interest with monthly rests to the supplier on that amount from the appointed day or, as the case may be, from the date immediately following the date agreed upon, at three times of the bank rate notified by the Reserve Bank⁸.

CONCLUSION

In present era of Indian economy, MSME has played a vital role in the growth of the economy. This article deals with the problems faced by MSME in details and also have dealt with the solution of the same. Government has given its major share of concern to MSME and is working for its development. Various policies and schemes had been made so far and still Government is working for its improvement in current scenario. This article also deals with the opportunities available to the citizen in this sector. The most benefit class is the young mind having innovative ideas and unique skills and is willing to move further in line of start up programs related to MSME.

All the micro, small and medium enterprises which were not getting much benefit from the financial institutions are now in the lane of getting the credit facilities and also many more benefits plans under such initiatives. Through this many MSMEs who were undergoing the phase of sick enterprises has started recovering and contributing to their own growth.

⁷ Supra at note 5

⁸ In The Case Of M/S Ramky Infrastructure Private Limited Versus Micro And Small Enterprises Facilitation Council & Anr (Decided on 04.07.2018)