

# A STUDY ON OPERATIONAL PROBLEMS OF MICRO, SMALL AND MEDIUM ENTERPRISES (MSME'S)

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## INTRODUCTION

In India, since last many years, the MSME'S are recognized as means of production and service rendering with utilization of limited resources. The effective utilization of resources, greater operational flexibility, mobility and higher innovations and low investment are the strength of MSME'S. MSME'S sector worldwide considered as the growth engine of the economy. In India; much potential are available towards an equal regional development and optimum utilization of scarce resources. More than 95% units belong to MSME sector and about 45%; products produced by MSME sector. The contribution of MSME'S towards this sector is highly remarkable as compared to any other sector of economy. MSME'S contribution towards, investment, employment generation, GDP, production etc., in every area it is very important. Definition of MSME's: In accordance with the provision of MSME's development act 2006, the MSME's classified into two categories: Manufacturing enterprises The enterprises engaged in the manufacture or production of goods, pertaining to any industry specified in the first schedule to the industries (development and regulation) act 1951, having investment in plant and machinery of Rupees up to 25 lacs, above 25 lacs and up to 5 crores. Above 5 crores and up to 10 crores called micro, small and medium enterprises, respectively. Service Enterprises The enterprises engaged in providing or rendering services having investment in equipment of Rupees up to 10 lacs, above 10 lacs and up to 2 crores, above 2 crores and up to five crores called micro, small and medium enterprises, respectively. In India, MSME's account for more than 80% of total number of industrial enterprises and employs over 6 crores people. As per estimates and statistics, out of 26 million MSME's, only 1.5 million are registered and remaining unregistered. The state wise distribution of MSME's is not equal because 55% of MSME's are in 6 states only, namely, Uttar Pradesh, Maharashtra, Tamilnadu, West Bengal, Andhra Pradesh and Karnataka. Further, women own about 7% of MSME's and more than 94% of the MSME's are proprietorship or partnerships.

The government has given a new turnover based classification of MSMEs in February 2018. As per this new classification, the MSMEs are categorized in term of business turnover. This is in place of the previous classification based on investment made in plant and machineries if they are operating in the manufacturing sector and investment in equipment for service sector companies. As per the new classification, the same

turnover based criteria have been applied for all type of MSMEs including those operating in the services sector.

Though the primary responsibility of promotion and development of MSMEs is of the State Governments, the centre has passed an Act in 2006 to empower the sector and also has formed a Ministry (Ministry of MSMEs). It was the Micro, Small and Medium Enterprises Development (MSMED) Act which was notified in 2006 that defined the three tier of micro, small and medium enterprises and set investment limits. The new turnover criteria will better suit with the GST Network (GSTN) and other formats of segregating the MSMEs.

### The new turnover based classification of MSMEs

The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 will accordingly be amended to define units producing goods and rendering services in terms of annual turnover as follows:

- A micro enterprise will be defined as a unit where the annual turnover does not exceed Rs 5 crores;
- A small enterprise will be defined as a unit where the annual turnover is more than Rs 5 crore but does not exceed Rs 75 crore;
- A medium enterprise will be defined as a unit where the annual turnover is more than Rs 75 crore rupees but does not exceed Rs 250 crore.

Additionally, the Central Government may, by notification, vary turnover limits, which shall not exceed thrice the limits specified in Section 7 of the MSMED Act.

Table: Classification of MSMEs

Classification of the MSME	New Classification (annual turnover)	Previous classification – Ceiling on Investment in Plant and Machinery (in Rs)
Micro	Not exceeding Rs 5 crores	Below 25 lakhs
Small	Between Rs 5 crores to Rs 75 crores	25 lakhs to 5 crores
Medium	Rs 75 to Rs 250 crores	5 crores to 10 crores

Under the previous classification a separate methodology was adopted for service sector. Now the classification was made similar to the goods MSMEs as the general turnover-based criteria was made applicable to service sector also.

In 2015, the government has introduced an amendment bill to change the limit in all categories and it was adopted in February 2018.

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## REVIEW OF LITRATURE

**Thiripurasundari, K and V. Gurumurthy (2009)** the study highlights the challenges of micro, small and medium enterprises of India. One side the globalization is an opportunity as well as another side it is a challenge for the indigenous MSME'S. The Indian MSME'S are facing a great problem due to larger production of foreign 109 MSME`S in India: Problems, Solutions and Prospectus in present scenario manufacturing concern. The financially strong MSME'S will survive strongly at globalized platform.

**Bhavani, T.A. (2011)**, this study reveals that how the all aspects of the MSME'S (Employment, Leading sector of MSME'S, Investment in fixed assets) being change in modern perspective. The technological advancement and protection of MSME'S through various subsidy schemes and liberal availability of credit will be a great help.

**Nalabala Kalyan,Kumar. Sardar, Gugloth. (2011).**This study focuses upon the growth pattern of the MSME'S, employment generation (1992-2009). Further, study reveals the symptoms and steps involved in industrial sickness. The study gives the ample amount of knowledge about the various credit schemes sponsored by the government. Laghu udyami credit card scheme ,Credit guarantee fund trust for small industries, Swarojgar credit card scheme, Credit linked capital subsidy scheme and credit through commercial banks are the sources and schemes available to fulfill the financial needs as well as financially strengthen to the MSME'S.

## OBJECTIVE OF THE STUDY

The major objectives of this study were as follows:-

1. To know the present status of MSME`S in India
2. To know the problems related to MSME`S.
3. To know the importance of MSME`S in the development of Indian economy.

## DATABASE AND METHODOLOGY

Data used in the study are secondary in nature and mostly collected from the Annual Reports published by the Ministry of Micro, Small and Medium Enterprises.

## ANALYSIS OF DATA

Total working enterprises of the MSME'S

### Enterprise Category Investment in plant & machinery

Micro Enterprises	Does not exceed twenty five lakh rupees.
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore.
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees Service Sector.

### Enterprise Category Investment in equipment

Micro Enterprises	Does not exceed ten lakh rupees:
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than two crore rupees but does not exceed five core rupees

## CHALLENGES FACED BY MSME'S

### SINGLE CUSTOMER APPROACH:

In majority of the small scale industries, 80-90% of revenue is from one customer which is usually a bid scale manufacturing of service enterprise.

Hence, on exit of the customer the entire business comes to stake.

**UNIQUE MANUFACRURING EQUIPMENTS AND TOOLS (special purpose).** In the manufacturing MSME'S, the machineries, tools jigs and moulds are unique that it can be used only for the particular customer. So, if the customer is gone, this equipment become obsolete and useless.

This tends to increase the capital cost for the business.

### SOCIO ECONOMIC SLOW DOWN:

As the business model in this sector is very simple, any downturn due to political, economic or other social factors as Huge negative effect in the entire running of the business.

Even a little slow down in economy creates bigger impact on the profitability.

#### **OPERATIONAL CONSTRAINS:**

- Labor availability has been severe problem in this sector.
- Electricity availability in many semi urban and rural areas is still a challenge, which is an important concern for MSME'S.

The importance of power supply to economic development of any nation cannot be over emphasized. Availability and access to reliable electricity supply has a rippling effect on the productivity and welfare of SME's virtually all business activities especially industrial units (SME's) require constant and effective flow of electricity. It also contributes greatly to product marketing. The foregoing issues points out that poor electricity or lack of quality and available power supply to the MSME is a hindrance for their development.it effects the firms productivity also causing many inputs to be idle when there is a power shortage.it brings into loss of material ,break down of machinery and loss of productive line.

#### **COMPETENCE OF MSME OWNERS:**

In the most of the cases, the owners in this sector have education only till high school or diplomas .Hence, the bargaining capacity of them is limited with corporate customers, which leads to under payment by the customer. Hence, the profits are reduced and they are not paid for what they work for actually deserve.

#### **PROBLEM FACED IN RESPECT OF FINANCE.**

The financial problem of MSMEs is the root cause for all the other problems faced by the MSME sector. These industries (especially micro) are generally poor and there are no facilities for cheap credit. They fall into the clutches of money lender who charges exhorbited rate of interest. In recent years, large Indian firms obtained around 15 percent of their total funding from internal sources, 25 percent from banks and FIs, and 10 percent from capital markets. The remaining 50 percent came from alternative sources. Friends and family equity accounted for a huge proportion of their alternative finance, followed by trade credit. The problem of finance in these units is mainly due to two reasons. Firstly it is partly due to scarcity of capital in the country as a whole. Secondly, it is partly due to weak credit worthiness of micro and small enterprises in the country. Due to their weak economic base, they find it difficult to take financial assistance from the commercial banks and financial institutions. As such, they are bound to obtain credit from the money lenders on a very high rate of interest and are, thus, exploitative in character.

### **PROBLEM OF RAW MATERIAL**

The problem of raw material has assumed the shape of (i) an absolute scarcity, (ii) a poor quality of raw materials, and (iii) a high cost. Earlier, the majority of micro and small enterprises mostly produced items dependent on local raw material. But, ever since the emergence of modern small-scale industries manufacturing a lot of sophisticated items, the problem of raw material has emerged as a serious problem on their production efforts. The small units that use imported raw material face raw material problem either on account of foreign currency or customs duty or any other reasons.

### **PROBLEM OF MARKETING**

These units often do not possess any marketing organization. In consequence, their products compare unfavourably with the quality of the products of the large-scale industries. Therefore, they suffer from competitive disadvantages vis-à-vis large-scale units. In order to protect micro and small enterprises from this competitive disadvantage, the Government of India has reserved certain items for the small-scale sector. The list of reserved items has continuously expanded over the period and at present stands at 824 items. Besides, the Trade Fair Authority of India and the State Trading Corporation help the small-scale industries in organizing their sales.

### **PROBLEM OF UNDER-UTILIZATION OF CAPACITY**

The very integral to the problems of under-utilization of capacity is power problem faced by micro and small enterprises. In short, there are two aspects to the problems: one, power supply is not always available to these units, and whenever it is available, it rationed out, limited to a few hours in a day. Second, unlike large scale industries, the micro and small enterprises cannot afford to go in for alternatives, like installing own thermal units, because these involve heavy costs, since these units are weak in economic front, they have to manage as best as it can within their available meagre means.

### **OTHER PROBLEMS**

Technological obsolescence, inadequate and irregular supply of raw materials, lack of organized market channels, imperfect knowledge of market conditions, unorganized nature of operations, inadequate availability of credit facility, constraint of infrastructure facilities including power, and deficient managerial and technical skills. There has been lack of effective co-ordination among the various support organizations set up over the period for the promotion and development of these industries. Quality consciousness has not been generated to the desired level despite various measures taken in this regard. Some of the fiscal policies pursued have resulted in unintended splitting up of these capacities into uneconomic operations and have inhibited their smooth transfer to the medium sector. All these constraints have resulted in a skewed cost

structure placing this sector at disadvantage vis-a-vis the large industries, both in the domestic and export markets.

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

## **FINDINGS**

The following were the observations from the above study.

- Inadequate knowledge in technology updating.
- Ignorance of statutory facilities by the government.
- Ignorance of financial assistance extended by other financial institutions.
- Problems in acquiring individual recognition in marketing the products because most of their products are minute parts of a branded company.
- Deficient managerial and technical skill acquired by MSMEs.

## **SUGGESTIONS TO OVERCOME MSME'S CHALLENGE**

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 organise 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 organising various trade promotional activities.

## **STATUTORY MANDATE AWARENESS:**

The ministry for MSME'S the enacted MSMED act 2006 for regulation and development of the industries in this sector.

However not many are aware about the same. So, it is a prime obligation to create awareness about the statute and its benefits.

The Market Promotion and Development Assistance Scheme (MPDA) has been launched as a unified scheme by merging different schemes implemented by the Khadi sector including publicity, marketing, market promotion and marketing development assistance. Further, grant/subsidy will also be available for construction of Khadi plazas. The overall objective of the scheme is to ensure increased earnings for artisans.

### **CREDIT GUARANTEE TRUST FUND FOR MICRO AND SMALL ENTERPRISES**

Collateral free loan up to a limit of ₹ 100 lakh is available for individual MSE on payment of guarantee fee to bank by the MSE. Both existing and new enterprises are eligible under the scheme.

### **REWARDS AND SUBSIDIES :**

Government can improve the performance of industries by rewarding and providing subsidies for achievers in the sector. This would encourage others to achieve and helps in upliftment of industry as whole. Government can also provide electricity at subsidized rates for MSME'S.

### **SMALLER GROUPS AND MEETINGS :**

The MSME'S owners shall form smaller groups based on geographical location or based on industry they work for.

They shall meet up on a frequent basis to address concerns of its members. Analysing current industry trend, and general updations.

Such groups shall foster confidence among the owners of MSME'S.

- The Prime Minister is making a pitch for Make in India and encouraging foreign manufacturers to set up units in India. This is an encouraging trend and would certainly boost employment, growth and development of MSMEs in India. Thus, the focus of the government on MSMEs at this juncture of economic slump is justified because these units have potential for providing growth and employment.
- Recently, government had announced a number of measures in its first budget announced in July 2014 and a Committee was also proposed to examine the financial architecture with a view to remove bottlenecks and create new rules and structures for the sector.
- Skill formation has to be seen from two angles - labor and entrepreneurs. For labor, there is need for having more ITIs and skill development centres. For entrepreneurs, there is need for having more incubators. Incubators play an important role in developing entrepreneurs and therefore there would be need to have an incubator in every major city. To increase the number of incubators and scale up their operations, there would be need for extra finances. In view of the shortage of finances, alternatives can be considered. Incubators need land, and constructed space, in addition to teaching faculty which would consist of academia and practitioners. The government can consider scaling up



the numbers of incubators by using a portion of available land granted to IITs, IIITs, ITIs, schools and colleges, especially those established/financed by the government - both central and state. The industry can also help by establishing incubators using the provisions of CSR.

- The MSME ministry could facilitate 24\*7 TV or even internet TV exclusively for MSMEs which would help them in keeping up-to-date with the happenings in the sector. The medium of communication has to be largely local language and, if possible, local entrepreneurs should be encouraged to share their experience, and mentor the local budding entrepreneurs. Also, module-based password-protected video training in local language at a nominal fee could be considered
- A separate legal counsel should be made available in all district headquarters and MSME clusters. Law institutes in each state should come up with document that has Frequently Asked Questions(FAQs) along with basic legal information specific to MSMEs in English and local language. This document should be made available online in all MSME forums like SIDBI, Development Commissioner (MSME), Chambers of Commerce, etc.
- To address the issue of Greenfield projects, an evaluation framework is necessary. This framework can use historical MSME data as the input. Data should include profile of the entrepreneur, profile of the unit and its financial details. A national-level MSME register having the required data have to be created and updated regularly. With the help of statistical techniques, data can be leveraged to predict the probability of success of the new project using its entrepreneurs and unit's profile.
- Most importantly, loan proposal template should be made available in the native language apart from English and Hindi. Bankers, following the practice of civil servants engaged in local administration, should be provided training to learn (read, speak, write) the native language of the region/place of posting.
- In the fast changing world, it is necessary to be innovative. As MSMEs lack resources for in-house R&D, it would be useful to have large industrial houses or the government helps them with research in developing new products. Illustratively, such research and development would be useful in handicrafts, khadi, handlooms, and leather products.
- Like Agriculture Universities, there may be a need to have a few MSME Universities, exclusively dedicated to research and development of MSME products. The key research departments in such a university should include R&D for products, labor issues, finance, inputs and marketing.
- MSME Chairs in universities could be established to encourage research on issues and different aspects related to operations of MSMEs. These chairs can be funded by the government or Chambers of Commerce or institutions like SIDBI.

## CONCLUSION

The Government through the Ministry of Micro, Small and Medium Enterprises (MSME) has been implementing a number of schemes with the objective of having a vibrant MSME sector through the promotion of growth and development of micro, small and medium enterprises including khadi, village and coir industries in cooperation with concerned Ministries/Departments, State Governments and other stakeholders by providing support to existing enterprises and encouraging creation of new enterprises. Simplifying the lending process for MSME'S by developing a customized lending process. Combine human intelligence with data and technology. Always stay connected with the borrowers. Enforce timely reporting and flawless communications.

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