

## A Study on The Issues and Challenges Faced by Micro Small and Medium Enterprises (MSMEs) in India After Globalization



### Entrepreneur

KEYWORDS :

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### INTRODUCTION

The main purpose of the study is to probe into the Issues and Challenges faced by the Micro, Small and Medium Enterprises (MSMEs) sector of our country which contributes nearly 8 percent of the country's GDP, 45 percent of the manufacturing output and 40 percent of the exports. They provide the largest share of employment after agriculture. They are the nurseries for entrepreneurship and innovation. Even during the period of high growth, the share of the manufacturing sector in GDP stagnated at around 16%. This compares unfavorably with other economies of East Asia such as China, Singapore, Thailand and Malaysia whose manufacturing accounts for 30%, 22%, 36% and 25% respectively of GDP.

Enterprises which fall under MSMEs are classified in to two sectors based on their Investment as Manufacturing and Service Sector.

For the Manufacturing Sector	
Enterprises	Investment in plant & machinery
Micro Enterprises	Does not exceed Rs. 25 lakh
Small Enterprises	More than Rs. 25 lakh but does not exceed Rs. 5 crore
Medium Enterprises	More than Rs. 5 crore but does not exceed Rs. 10 crore
For the Service Sector	
Enterprises	Investment in equipments
Micro Enterprises	Does not exceed Rs. 10 lakh
Small Enterprises	More than Rs. 10 lakh but does not exceed Rs. 2 crore
Medium Enterprises	More than Rs. 2 crore but does not exceed Rs. 5 crore

### HISTORY AND RESERVATION FOR MANUFACTURING

Before 2006 MSMEs fell under the category called Small Scale Industries (SSI) which were regulated by the Industries Development Regulation act 1951. After 2006 SSI are called as MSMEs which are now regulated by MSMEs Act 2006. Reservation of items for exclusive manufacture in MSME sector statutorily provided for in the Industries (Development and Regulation) Act, 1951, has been one of the important policy measures for promoting this sector.

#### The Reservation Policy has two objectives:

Ensure increased production of consumer goods in the small scale sector.

Expand employment opportunities through setting up of small scale industries

Non-MSME units can undertake manufacture of reserved items only if they undertake 50%

export obligations. As a result of improved balance of payment situation, India was under obligation to remove quantitative restrictions by 1st April 2001.

Year	Items Reserved For MSME	Items On OGL (Open General License)	Remaining Items Under Reserved List
1998-99	821	478	343
1999-2000	812	576	236
2000-2001	812	643	169
2001-2002	799	799	NIL

**The Major Problems and Challenges faced by MSMEs are Managerial and Organizational Inadequacies**

- Raw materials and Products
- High cost of Credit or Finance
- Technology & Lack of access to modern technology
- Human Resources
- Inadequate infrastructure facilities
- Marketing and Export
- Increasing Competition

#### Managerial and Organizational Inadequacies

MSMEs are generally managed by the owners who very often do not possess the skills required for the efficient management of the enterprise. There is lack of proper division of work and benefits of specialization are not available. Some owner-managers are reluctant to adopt modern methods of organization and management. There is instability in business because the sickness and death of the owner manager directly affects the survival and growth of the MSMEs.

#### Raw materials and Products

Non-availability of quality raw materials on a timely basis in an adequate quantity is one of the main problems faced by MSMEs. There is acute shortage of even the basic raw materials required by MSMEs units. These units are under a handicap in obtaining raw materials of requisite quality at reasonable prices. They do not get the benefits of bulk buying. For instance, the handloom industry is facing shortage of yarn. MSMEs also face shortage of power due to which they are unable to make full utilization of plant capacity. Majority of them cannot afford to install their own power generating plants to ensure uninterrupted operations.

#### High cost of Credit or Finance

All kinds of business enterprises require sufficient funds in order to meet their fixed as well as working capital requirements. They need credit support not only for running the enterprise and operational requirements but also for diversification, modernization/up gradation of facilities, capacity expansion, etc. In respect of MSMEs, the problem of credit becomes all the more serious whenever any difficult situation occurs such as a large order, rejection of consignment, inordinate delay in payment, etc. Sometimes, they have to close down their operations due to shortage of funds. "The high borrowing cost of 13-15 per cent naturally affected the competitiveness, compared to other na-

tions where it was 6-8 per cent.”

### Technology & Lack of access to Modern Technology

Majority of the MSMEs use old techniques of production and outdated machinery and equipment. Up gradation of the technology and achieving economies of scale is one of the major problems facing the sector. They cannot afford new machines and equipments and are therefore not in a position to use the latest techniques of production. They do not find it possible to conduct research and development on a continuing basis. Therefore, productivity and quality in small scale firms tends to be low while unit cost of production is generally high. But with liberalization of the economy, the MSMEs are facing stiff competition from imports and need technological up gradation in order to produce better quality products at cheap rates.

As far as sourcing technology is concerned, MSMEs face the following three essential problems

- Obtaining information about technology is the first important issue.
- Actual procurement of the technology
- Acquiring finance for technology up gradation is also a problem.

### Human Resources

The managerial skills required for the management of MSMEs are not very much different from those necessary in large scale business. The managerial functions of planning, organizing, staffing, directing and controlling are common to both. There is lack of trained and experienced employees because MSMEs find it difficult to afford remunerative salaries as well as to provide adequate training facilities to their employees. Further, they find it difficult to recruit and motivate skilled managerial and technical personnel who tend to look for better opportunities in the large scale industries. Hence, they are not able to get/hold best talent in the industry and/ or have to depend on family members who do not have diversified and technical skills. Although, MSMEs is the second largest employer of human resources after agriculture, providing employment to large number of people in the rural and urban areas of the country. But, it is right to say that MSMEs faces huge problem of recruiting required number of manpower and managing effectively the recruited employees. Thus, more initiatives need to be taken at the Centre and the State level to ensure proper management of human resources in the MSMEs

### Infrastructure

In the wake of liberalization and globalization, its presence and importance for the proper growth of MSMEs cannot be underestimated. Some of the major problems faced by MSMEs with respect to infrastructure are

Inadequate infrastructural facilities create the problem of acute shortage of basic raw materials.

MSMEs find it difficult to distribute their products to the markets which are located at far off places because of incomplete construction or non-existence of basic roads/ highways.

Lack of proper airways and waterways facilities also restricts the growth prospects of those MSMEs whose target market is located abroad.

MSMEs face shortage of power supply, due to which they are unable to make full utilization of plant capacity. Most of them find it difficult to install their own power generating plants, so as to ensure their uninterrupted operations, due to lack of required funds.

Hence, MSMEs continued to face the problem of infrastructure bottlenecks in terms of presence of inadequate transportation facilities, low/ no access to sound power supply, lack of proper communications channels, inadequate marketing facilities, etc. All this affects the long run profit earning capacity of such entrepreneurs as well as inhibits the chances of survival of enterprises run by them.

### Marketing and Export

Out of several problems faced by MSMEs the absence of adequate marketing and export facilities is one of their main concerns. Almost all types of business enterprises face marketing problems, but the small and medium scale enterprises face greater difficulty in the marketing and distribution of their products. Some of these are

MSMEs find it very difficult to cope with large scale entrepreneurs in terms of cost, quality, standards, popularity, meeting ever-changing demands / preferences of consumers, etc.

Most of them do not have their own marketing network. So, they ultimately have to rely on outside sources for distributing their products. This also tends to raise the cost of their products and services.

They also lack the resources and funds needed for effective sales promotion. Many of such enterprises cannot afford to spend much on advertising, sales promotion, market research, etc.

They find it difficult to sell their output at remunerative prices because of higher cost of production and non-standardized quality of products.

Thus, it is right to say that most of MSMEs do not correctly understand as to what kind of products are actually needed by the market, how big/small is the market, when the products are needed and how to deliver such products. All these problems keep them mainly isolated from the market trends and conditions and, thus, tend to restrict their operations.

### Increasing Competition

The basic cause for many of the issues is the existence of intense competition in the market scenario. Large scale firms / MNCs that have huge production and distribution network, or enterprises that have goodwill in the market or have intellectual property rights/ standardization for their products or produces large range of products etc., are more likely to dominate the business environment in the country. In contrast, MSMEs mainly deal in one specialized line of products, have very small production and distribution network, and generally have no protection for their products. As a result, in spite of having useful and good quality products or having products similar to those produced by large scale firms, they are largely not able to create/ hold demand for their products and tend to lose customers to large scale enterprises owing to cut-throat competition.

In the years after independence, MSMEs were largely protected from such competition by following the policy of reservation. Many of the products were reserved for exclusive production by them. However, over the years, several enterprises were de-reserved for encouraging the employment and entrepreneurship activities. Further, over the years, the MSMEs in India has progressed from the production of simple consumer goods to the manufacture of many sophisticated and precision products like electronics control systems, micro wave components, electro medical equipments, etc. The process of economic liberalization and market reforms has further exposed these enterprises to increasing levels of domestic and global competition.

## REFERENCE

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