Problems Faced by Micro, Small and Medium Enterprises - A Special Reference to Small Entrepreneurs in Erode District

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Abstract

The Micro, Small and Medium Enterprises (MSMEs) are playing a momentous role in the overall economic development of our country where millions of people are unemployed or under-employed. Poverty and unemployment are two burning problems of the country today. The MSMEs play a vital role in the growth of the country. The MSMEs sector contributes significantly to the manufacturing output, employment and exports of the country. The strategy of economic development of any country that formulates programmes for removal of poverty by providing large scale employment, capital formation, effective mobilization of resources, balanced economic growth, expansion of trade and equitable distribution of national income with effective involvement and participation of all its citizens in the accomplishment of the goal, cannot neglect MSMEs Sector. This sector faces so many problems while competing with other large scale industries. If these problems are solved or efforts are taken to foster these challenges, this sector can prove itself as a developing engine. This paper deals with the identification of problems of the MSMEs and the study is empirical in nature based on the survey of 340 MSME units situated and working in the Erode district.

Keywords: Balanced Economic Growth, Capital Formation, Economic Development, Large Scale Employment, National Income, Removal of Poverty, MSMEs

1. Introduction

Lack of capital, excessive dependence on agriculture and abundant supply of manpower are the characteristic features of many developing countries in Asia. Hence, small scale sector is the most suitable one for these economies. In India, the Micro, Small and Medium Enterprises (MSMEs) play a crucial role in the overall development process.

The term ‘MSME’ is normally used to describe small industrial or business units in the private sector. MSMEs have been classified differently in different contexts in terms of their nature of assets and scale of production etc., while others have defined those units in terms of employment generation, shareholders’ funds, scale of investment or sale of products etc.

The enactment of Micro, Small and Medium Enterprises Development (MSMED) Act, in 2006 by the Government of India gave a legal basis and framework to the micro, small and medium enterprises by defining and classifying these enterprises on a uniform basis. This classification covers industries both under manufacturing and service sector and the limits are excluding the cost of land, building and other specified items.

Classification of MSMEs based on Investment Slabs

<table>
<thead>
<tr>
<th>MANUFACTURING ENTERPRISES</th>
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</thead>
<tbody>
<tr>
<td>Enterprises</td>
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<tr>
<td>Micro</td>
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<tr>
<td>Small</td>
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<tr>
<td>Medium</td>
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</table>

<table>
<thead>
<tr>
<th>SERVICE ENTERPRISES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprises</td>
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<tr>
<td>Micro</td>
</tr>
<tr>
<td>Small</td>
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<tr>
<td>Medium</td>
</tr>
</tbody>
</table>

The growth and development of MSME sector in our country has been consistent and remarkable over the preceding decades. However, this sector is not without problems. Therefore, the present study throws some light on its performance and the problems.

2. Literature Review

Sangitha G. Patel and Chadudhari P. T. \(^2\) probed the problems of S.S.I in India in general, but not relating to any particular State or Region. Vasu M. S. and Jayachandra K. \(^2\) analysed the growth and performance of MSMEs in India in general. Shiralashetti A. S. \(^4\) exposed the growth, performance and contribution of MSMEs to GDP in Dharwad district of Karnataka State. Rajib Lahiri\(^5\) critically analyzed to explore the opportunities enjoyed and the constraints faced by MSMEs in India during the pre and post liberalization period. Padmasani and Karthika S. \(^5\) examined the problems of MSMEs in the era of global economy and also identified the factors affecting them with special reference to textile exports. Nishanth P. and Zakkariya K. A. \(^7\) reviewed various barriers faced by MSME units in raising finance. Neeru Garg\(^8\) highlighted the growth, problems and the challenges witnessed by MSME sector in India in general. Suneetha K. and Sankaraiah T. \(^8\) investigated the problems of MSMEs in the Kadapa district, of Andrapradesh. Aruna H. N. \(^10\) attempted to highlight the problems faced by MSMEs in Visakhapatnam. Israr Ahmed\(^14\) examined the problems and prospects of MSMEs in J & K.

3. Objectives

The main objectives of the present study are:
- To examine the growth and performance of MSME sector in India.
- To analyse the problems of MSMEs in Erode district.

4. Significance of the Study

This study is confined to MSME units of five industries namely, Agro based industries, Chemical based industries, Textile based industries, Mineral based industries, and Engineering and Allied operations. which are located in the Erode district, since the major objective of this study is to examine the problems of the MSMEs based on the sample respondents in the study area covering a period of ten years from 2007-2008 to 2017-2018. Hence, the findings of this study can be used by industrial houses, prospective entrepreneurs and policy makers to take better business decisions.

5. Sampling Design and Data Collection

On the basis of group-wise classification done by the Department of Industries and Commerce, Government of Tamil Nadu, five classifications of MSME units in Erode district were taken up for study. These classifications were considered as five broad strata namely Agro based industries, Chemical based industries, Textile based industries, Mineral based industries and Engineering and Allied industries. The required data were collected by employing stratified random sampling technique, using proportional allocation whereby, the size of the sample from different strata was kept proportional to the stratum size.

A sample size of more than 300 is considered to be a representative sample which significantly reduces the standard error of the coefficient of most of the variables. Hence the sample size was fixed as 340. The population size \((P)\) is 23343, \(P_i\) represents the proportion of population included in stratum \(i\) and \(n\) represents the total sample size. Therefore the number of items selected from stratum \(i\) is 

\[
n_i = \frac{340 \times \text{Weights of respondents}}{23343} = \frac{340 \times \text{Weights of respondents}}{23343}
\]

The Sample Size = 340

Out of a total of 23343 MSMEs, using simple random sampling technique, the sample respondents were selected accordingly from each stratum. The number of select sample respondents included - Agro based industries \((n_1) = 97\), Chemical based industries \((n_2) = 20\), Textile based industries \((n_3) = 130\), Mineral based industries \((n_4) = 52\), Engineering and Allied industries \((n_5) = 41\). Thus, a total of 340 sample respondents were selected for the study. The necessary primary data were collected from the sample respondent firms by using a well-structured interview schedule during January to May 2018. Besides, the secondary data related to the MSME sector was tapped from its annual reports in order to analyse its growth and performance.

6. Tools of Analysis

For the purpose of analysis, the Composite Weighted Score method was used. Under this method different alternatives have been assigned weights in the order of preference. MSMEs’ problems were analysed by using Likert’s Five Point Scaling technique. As per the opinion of the industrialists, scores were assigned and weights were given for all the five types of sample units.

**WEIGHTS ASSIGNED:** Very high +2; High +1; Normal 0; Low -1; Very low -2;

**Score:** 

\[ SC = \sum F \times W \]

**PRODUCTION PROBLEMS**

**FINANCE PROBLEMS**

**LABOUR PROBLEMS**

**Coefficient:** SC/N; where n is the total number of respondents
7. Growth and Performance of Small Scale Industries in India

The Government of India has introduced several major policy initiatives for the support and promotion of micro, small and medium enterprises in the country. These include the establishment of Small Industries Development Bank of India (SIDBI) in 1990 for promotion and financing of MSME sector, Credit Guarantee Fund Trust of Micro and Small Enterprises (CGTMSE) in 2000 to offer credit facilities to eligible borrowers and the Prime Minister's Employment Generation Programme (PMEGP) in 2008 to generate employment opportunities in rural and urban areas through new self-employment ventures/projects/micro enterprises. Table 1 reveals the number of working enterprises, employment generated and the investments in fixed assets in the MSME sector of India as disclosed in the Fourth All India Census of MSME-2015-2016 to denote its performance and the growth rate.

It is obvious to note from Table 1 that the MSME sector in India had registered a moderate annual compound growth rate of 6.43% in terms of total working enterprises, 3.63% in terms of employment generated and 6.04% in terms of market value of fixed assets held over a period of ten years between 2006–07 and 2015–16.

Table 1. Performance of MSME Sector in India

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Working Enterprises (Nos. in lakh)</th>
<th>Employment Generated (Nos. in lakh)</th>
<th>Market Value of fixed Assets (Rs. in Crores)</th>
</tr>
</thead>
<tbody>
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<td>2006–07</td>
<td>361.76</td>
<td>805.23</td>
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<tr>
<td>2007–08</td>
<td>377.36</td>
<td>842.00</td>
<td>920,459.84</td>
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<tr>
<td>2008–09</td>
<td>393.70</td>
<td>880.84</td>
<td>977,144.72</td>
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<tr>
<td>2009–10</td>
<td>410.80</td>
<td>921.79</td>
<td>1,038,546.08</td>
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<tr>
<td>2010–11</td>
<td>428.73</td>
<td>965.15</td>
<td>1,105,934.09</td>
</tr>
<tr>
<td>2011–12</td>
<td>447.64</td>
<td>1,011.69</td>
<td>1,182,757.84</td>
</tr>
<tr>
<td>2012–13</td>
<td>447.54</td>
<td>1,061.40</td>
<td>1,268,763.67</td>
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<tr>
<td>2013–14</td>
<td>488.46</td>
<td>1,114.29</td>
<td>1,363,700.54</td>
</tr>
<tr>
<td>2014–15</td>
<td>510.57</td>
<td>1,171.32</td>
<td>1,471,992.94</td>
</tr>
<tr>
<td>2015–16</td>
<td>633.88</td>
<td>1109.89</td>
<td>1,471,912.94</td>
</tr>
<tr>
<td>CAGR</td>
<td>6.43%</td>
<td>3.63%</td>
<td>6.04%</td>
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</table>


8. Major Problems and Prospects of Micro, Small and Medium Enterprises in Erode District

8.1. Production Problem

Normally business firms face many problems relating to production. These problems include scarcity of raw material, high cost of raw materials, poor quality, shortage of power, high cost of power, obsolete technology and transportation problem. These problems are analysed by using Likert’s Five Point Scaling technique. The opinion of the industrialists, scores assigned and the weights given are presented for all the five types of sample units in Tables 2A to 2E.

An industry cannot function effectively and successfully without adequate and cheap supply of raw materials. Based on the scores and the co-efficient, production problems of the select sample industries are given rank as shown in Table 2A to 2E. ‘Non-availability of raw materials’ is ranked first in case of Chemical based, Textile based and Mineral based industries. ‘High cost of raw materials’ is ranked second in case of Chemical based and Mineral based industries. Third rank is assigned to ‘high cost of power’ in case of Agro based and Mineral based industries followed by ‘poor quality of raw materials’ as experienced by Chemical and Mineral based industries. Fourth rank is given for ‘non-availability of power’ in case of textile based industries. However, the analysis brings to light that the most important and serious problem is ‘non-availability and high cost of raw materials’.

Table 2A. Production Problems

<table>
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<tr>
<th>Agro Based Industries</th>
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<tr>
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<tr>
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<tr>
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### Table 2B. Production Problems

#### Agro Based Industries

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<th>N</th>
<th>SC</th>
<th>Co-eff.</th>
<th>Rank</th>
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Source: Primary data

### Table 2C. Production Problems

#### Chemical Based Industries

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<th>SC</th>
<th>Co-eff.</th>
<th>Rank</th>
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Source: Primary data

#### Textile Based Industries

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<th>SC</th>
<th>Co-eff.</th>
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Source: Primary data
Table 2D. Production Problems

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Source: Primary data

Table 2E. Production Problems

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</table>

Source: Primary data

8.2 Labour Problem

The respondents were asked to express their opinion about the problems relating to labour in their organisations. The problems include non-availability of skilled persons, cost of labour, cost of retaining, cost of perquisites, absenteeism, sickness of labour, union problems, government intervention, inspection by officials and others. The data collected in this regard are shown for all the five types of sample units in Tables 3A to 3E.

It is clear from Table 3A that in Agro based industries, ‘problem given by trade unions’ or ‘labour unrest’ occupies the first place as the co-efficient is 0.653. ‘Frequent inspection by officials’ occupies the second place as the co-efficient is 0.633 followed by ‘non-availability of skilled persons’ with co-efficient of 0.622. ‘Interference of the Government’ often affects smooth working of these industries and hence is given fourth rank with a co-efficient of 0.531. ‘Retention of labour’ and ‘Cost of labour’ also pose a threat to these industries which occupy the fifth and the sixth place respectively.

It is obvious from Table 3B that in case of Chemical based industries, the problem of ‘non-availability of skilled person’ occupies the first place with a co-efficient of 0.850. ‘Cost of retaining labour’ occupies the second place as the co-efficient of 0.500 followed by ‘cost of labour’ with a co-efficient of 0.450. ‘Absenceism
of labour' is given the fourth rank with a co-efficient of 0.150. 'Cost of perquisites' and 'sickness of labour' also pose a threat to these industries which occupy the fifth and the sixth place respectively.

Table 3C shows that in case of Textile based industries, 'non-availability of skilled persons' occupies the first place with a co-efficient of 0.915. 'Cost of perquisites' occupies the second place as the co-efficient is 0.723 followed by 'Government intervention' with a co-efficient of 0.669. 'Union problems' is given the fourth rank with a co-efficient of 0.654. 'Inspection by officials' and 'cost of labour' also pose a threat to these industries which occupy the fifth and the sixth place respectively.

**Table 3A. Labour Problems**

<table>
<thead>
<tr>
<th>Labour problems</th>
<th>Very High</th>
<th>High</th>
<th>Normal</th>
<th>Low</th>
<th>Very Low</th>
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<th>SC</th>
<th>Co-eff.</th>
<th>Rank</th>
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Source: Primary data

**Table 3B. Labour Problems**

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Source: Primary data

**Table 3C. Labour Problems**

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problems faced by micro, small and medium enterprises - a special reference to small entrepreneurs in Erode District

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Source: Primary data

Table 3D. Labour Problems

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Source: Primary data

Table 3E. Labour Problems

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</table>

Source: Primary data
Table 3D discloses that in case of Mineral based industries, ‘cost of labour’ occupies the first place as the co-efficient is 1.510. ‘Cost of retaining’ occupies the second place as the co-efficient is 1.216 followed by ‘non-availability of skilled persons’ with a co-efficient of 1.020. ‘Cost of perquisites’ is given the fourth rank as the co-efficient is 0.980. ‘Inspection by officials’ and ‘absenteeism of labour’ also pose a threat to these industries which occupy the fifth and the sixth place respectively.

Table 3E exposes that in case of Engineering and Allied industries, ‘cost of labour’ occupies the first place as the co-efficient is 1.171. ‘Cost of retaining’ occupies the second place with a co-efficient of 1.098 followed by ‘non-availability of skilled persons’ with a co-efficient of 0.927. ‘Inspection by officials’ is given the fourth rank with a co-efficient of 0.659. ‘Government intervention’ and ‘absenteeism of labour’ also pose a threat to these industries which occupy the fifth and the sixth place respectively.

8.3. Problem of Finance

Finance is the life blood of any organisation to sustain and progress. Finance is a common problem existing in most of the firms of SSIs as these firms are unable to raise the required and timely funds due to low credit worthiness. This in turn restrains them from planning for modernization, expansion and diversification. The data relating to the problem of finance has been analysed by using Likert’s Five Point Scaling Technique. The opinions collected, scores assigned and the weights given are presented for all the five types of sample units in Tables 4A to 4E.

### Table 4A. Problem of Finance

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<th>Very Low</th>
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<th>SC</th>
<th>Co-eff.</th>
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Source: Primary data

### Table 4B. Problem of Finance

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Source: Primary data

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Source: Primary data
Problems Faced by Micro, Small and Medium Enterprises - A Special Reference to Small Entrepreneurs in Erode District

### Textile Based Industries

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Source: Primary data

**Table 4D. Problem of Finance**

### Mineral Based Industries

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Source: Primary data

**Table 4E. Problem of Finance**

### Engineering and Allied industries

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Source: Primary data

Tables 4A to 4E exhibits that ‘charging penal rate of interest’ is a serious problem for Agro based industries and hence ranks first with a co-efficient of 0.450. ‘Non-availability of fixed capital’ happens to be a threat to Chemical based industries with a co-efficient of 1.050 and to Mineral based industries with a co-efficient of 0.490 as both the industries have registered the first rank to this problem. However, the same problem has been ranked second by Agro based industries with a co-efficient of 0.439, Textile based industries with a co-efficient of 0.277 and by Engineering and Allied industries with a co-efficient of 0.317. ‘Inadequate finance’ has been ranked third by Chemical based industries, Textile based industries and Mineral based industries with a co-efficient of 0.500, 0.108 and 0.157 respectively. ‘Non-availability of finance’ has been assigned the fourth place by all the industries except Engineering and Allied industries for which it hailed to be the first and foremost problem with a co-efficient of 0.512. ‘High rate of interest’ has been a serious problem for Textile based industries as it ranks first with a co-efficient of 0.346. The same problem has ranked second for Chemical based and Mineral based industries, while it is given the third rank in case of Agro based, and Engineering and Allied industries.

### 9. Conclusion and Suggestions

The main purpose of the study is to investigate empirically how the entrepreneurs managed the micro, small and medium enterprises and what are the various problems faced by these enterprises. The study has revealed that the major hurdles like financial constraint, issues relating to power and raw material...
procurement as experienced by the MSMEs need to be more effectively dealt with by the government to redress them. Further, the study has also disclosed that the overall globalised business environment of India has been on an average favourable for the growth of micro and small scale industries as confirmed by the performance parameters of the number of working enterprises, employment generated and the market value of investment in fixed assets. Since most of the enterprises also complained about the non-availability of skilled labour, the government needs to look into this matter meticulously. Simple and clear policies, and schemes and subsidies simple in execution are to be made so that these enterprises can perceive and utilize to their benefit and growth augmenting the overall economic development of our country.

10. References