

## Problems faced by MSME's – with special reference to Coimbatore city

\*Dr. B. Joy Suganya

HOD - Department of B.Com (BPS), VLB Janakiammal College of Arts and Science, Coimbatore, Tamil Nadu (India)

### ARTICLE DETAILS

#### Article History

Published Online: 07 September 2018

#### Keywords

MSME, All India Censuses, Policies, SMEs, Schemes

#### \*Corresponding Author

Email: [bjoysuganya\[at\]yahoo.in](mailto:bjoysuganya[at]yahoo.in)

### ABSTRACT

Micro, Small and Medium Enterprises (MSMEs) plays an imperative role in the economic growth of the country owing to the contribution to production, exports and employment. It contributes 90% of the business world wide and employs around 50% of the world workforce this sector has been recognized as an engine of growth all over the world it is characterized by low investment requirement operational flexibility and location wise mobility substitutes. The MSME sector in India is highly heterogeneous in terms of the size of the enterprises, variety of products and services, and levels of technology. This sector not only plays an important role in providing employment opportunities at comparatively lower capital cost than large industries. This paper analyzes the definition of MSMEs, the operational performance of MSMEs in Indian economy and problems of MSMEs.

### 1. Introduction

India's economy is principally resource oriented although the size of the manufacturing sector has increased over the recent years. MSMEs of India includes business like manufacture of items such as textiles, garments, footwear, sugar, food processing, beverages(including mineral water) and wood based industries. This sector contributes 8% of the contribution to countries GDP, 45 per cent to the manufactured output and 40 per cent to the country's exports. It provides employment to 60 million people through 28.5 million enterprises. According to the estimates of the 4th (All-India) Census of MSMEs, out of the total number of MSMEs, only 1.5 million are in the registered segment while the remaining 24.5 million (94 per cent) are in the unregistered segment. MSMEs constitute over 90 per cent of total enterprises in most of the economies and are credited with generating high rates of employment and account for a major share of industrial production and exports. With its agility and dynamism, this sector has shown admirable innovativeness and adaptability to survive the recent economic slowdown. The MSME sector in India is highly heterogeneous in terms of the size of the enterprises, variety of products and services, and levels of technology.

### 2. Objectives of the study

- ✓ To understand the definition of MSMEs on the bases of investment limits.
- ✓ To study the various government policies towards MSME's.
- ✓ To study the issues and challenges of the Micro enterprises.

### 3. Research Methodology

The primary data has been collected from 100 respondents who are running their business in Micro Enterprises in manufacturing sector at Coimbatore city. It involves different type of industry. An interview schedule has been prepared in a simple manner so as to enable the respondents to understand easily and to provide required data. The relevant secondary data is collected from the publication of

Ministry of Micro, Small and Medium Enterprises, journals, Government of India published by Reserve Bank of India and Handbook of Statistics on Indian Economy.

### 4. Review of Literature

**Sonia and Kansai Rajeev (2009)<sup>1</sup>** studied the effects of globalization on Micro, Small and Medium Enterprises (MSMEs) during the pre and post liberalization from 1973-74 to 2008-09. They used four economic parameters namely number of units, production, employment and export and interpreted study results based on Annual Average Growth Rate (AAGR) calculation. AAGR in pre liberalization period (1973-74 to 1989-90) was higher in all selected parameters than that of post liberalization period (1991-92 to 2007-08). They concluded that MSMEs failed to put up an impressive performance in post reform era.

**C.Paramasivan (2010)<sup>2</sup>** in his work Economics of small scale Textile industries: A Micro Study described small scale industries play a key role in our economic development which provides more employment opportunities, mobilization of small amount of capital, process of industrialization utilization of local recourses and reduce the regional imbalance of the country.

**Dixit and Pandey (2011)<sup>3</sup>** the study examined in co integration analysis to examine the causal relationship between SMEs output, exports, employment, number of SMEs and their fixed investment and India's GDP, total exports and employment (public and private) for the period 1973-74 to 2006-07. Their study revealed the positive causality between SMEs output and India's GDP.

**Singh et al. (2012)<sup>4</sup>** analyzed the performance of Small scale industry in India and focused on policy changes which have opened new opportunities for this sector. The study concluded that SSI sector has made good progress in terms of number of SSI units, production & employment levels. The study recommended the emergence of technology development and strengthening of financial infrastructure to boost SSI and to achieve growth target.

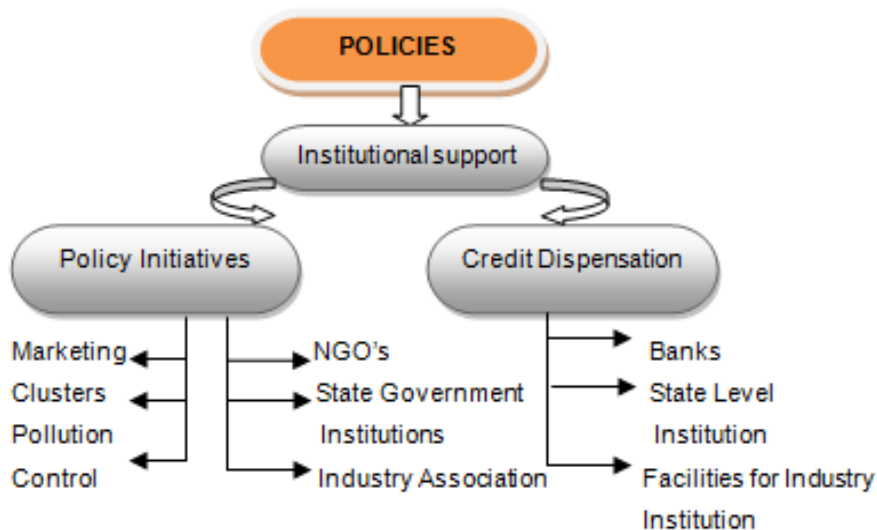
Venkatesh and Muthiah (2012)<sup>5</sup> found that the role of small & medium enterprises (SMEs) in the industrial sector is growing rapidly and they have become a thrust area for future growth. They emphasized that nurturing SME sector is essential for the economic well-being of the nation.

**5. Micro Small Medium Enterprises (MSME's)**

The Micro- Small and Medium Enterprises (MSMEs) are small sized entities, defined in terms of their size of investment. They are contributing significantly to output, employment export etc. in the economy. They perform a critical role in the

economy by providing employment to a large number of unskilled and semi-skilled people, contributing to exports, raising manufacturing sector production and extending support to bigger industries by supplying raw material, basic goods, finished parts and components, etc. As per the MSME's at a Glance Report of the Ministry of MSMEs, the sector consists of 36 million units and provides employment to over 80 million persons. The Sector produces more than 6,000 products contributing to about 8% of GDP besides 45% to the total manufacturing output and 40% to the exports from the country.

**CHART-I: POLICIES OF MSME**



**Classification of MSME**

| Classification | Investment ceiling for plant, Machinery (or) Equipments          |  |
|----------------|--|--|
|                | Manufacturing Enterprises  | Service Enterprises  |
| <b>Micro</b>   | Up to ₹25lakhs (\$ 50 thousand)                                  | Up to ₹10lakhs (\$ 20 thousand)                                    |
| <b>Small</b>   | Above ₹25lakhs (\$ 50 thousand) and Up to ₹5crore (\$ 1 million) | Above ₹10lakhs (\$ 20 thousand) and Up to ₹2crore (\$0.40 million) |
| <b>Medium</b>  | Above ₹5crore (\$ 1 million) and Up to ₹10crore (\$ 2million)    | Above ₹2crore (\$ 0.40 million) and Up to ₹5crore (\$ 1 million)   |

**Comparison of the MSME sector with the overall industrial sector**

| Year      | Growth rates of SSI Sector [2001-02 base IIP(%age)] | Overall Industrial Sector (%) |
|-----------|---|-------------------------------|
| 2004-2005 | 10.88   | 8.40                          |
| 2005-2006 | 12.32   | 8.00                          |
| 2006-2007 | 12.60   | 11.90                         |
| 2007-2008 | 13.00*  | 8.70                          |
| 2008-2009 | **  | 3.20                          |
| 2009-2010 | **  | 10.50                         |
| 2010-2011 | **  | 7.80                          |

Source: Centre for Industrial and Economic Research (CIER)

## 6. Schemes for MSME's

- Reimbursement For Iso-9000 Certification Scheme
- Laghu Udyami Credit Card Scheme (LUCCS)
- Swarojgar Credit Card Scheme (SCCS)
- Credit Guarantee Fund Trust Scheme For Micro And Small Industries (CGFTSI)
- Credit Linked Capital Subsidy Scheme (CLCSS)
- National Equity Fund Scheme (NEF)
- Integrated Infrastructure Development Scheme (IIDS)
- Technology Development And Modernization Fund Scheme (TDMF)

**Table: 01**  
**Major Problems and Challenges**

| Sl. no | Problems                 | No. of Respondents |    | Percentage (%) |
|--------|--------------------------|--------------------|----|----------------|
|        |                          | Yes                | No |                |
| 1.     | Production Constraint    | 27                 | 73 | 73%            |
| 2.     | Finance                  | 82                 | 18 | 82%            |
| 3.     | Large scale competitors  | 54                 | 46 | 54%            |
| 4.     | High transportation cost | 67                 | 33 | 67%            |
| 5.     | Lack of own network      | 61                 | 39 | 61%            |
| 6.     | Power supply             | 54                 | 46 | 54%            |
| 7.     | Rawmaterial procurement  | 59                 | 41 | 59%            |

**Table: 02**  
**Overcome the Problems**

| Sl. no | Measures   | No. of Respondents |      | Percentage (%) |
|--------|--|--------------------|------|----------------|
|        |  | Yes                | No   |                |
| 1      | Usage of generators  | 58                 | 42   | 58             |
| 2      | Lay off  | 63                 | 37   | 63             |
| 3      | Power holiday  | 90                 | 10   | 90             |
| 4      | Produce quality products   | 98.8               | 1.2  | 98.8           |
| 5      | Reduce the geographical location & concentrate on rural locality | 71.6               | 28.4 | 71.6           |
| 6      | Customize the product  | 82.6               | 17.4 | 82.6           |
| 7      | Enhance sales promotion by discount & offers                     | 69.2               | 30.8 | 69.2           |
| 8      | Change the style and utility of the products                     | 81                 | 19   | 81             |
| 9      | Develop own networking   | 78.4               | 21.6 | 78.4           |
| 10     | Eliminate middlemen by direct selling                            | 66.8               | 33.2 | 66.8           |
| 11     | Avail assistance from Govt. agencies                             | 34.8               | 65.2 | 34.8           |
| 12     | Selling through co-operative markets                             | 37.2               | 62.8 | 37.2           |

The above said are the major problems faced by the MSME's in the market also in the business, most of the problems like production constraints, finance, large scale competitors, lack of network, power supply and raw material procurement. The MSME's also taken measures to overcome the constraint by using generators in power shortage, providing lay-off and power holiday, produce quality products and customize the product in the markets to meet the large scale competitors, enhance the sales promotion by discounts and offers to attract more consumers, create the change of style and utility of the products, to have a direct contact with the customers eliminate the middlemen by direct selling, avail assistance from Govt. agencies to increase production and for reasonable price for the product products are sold through co-operative market.

## 7. Major findings of the study

- Majority of the respondents opined that they don't have production related constraint.
- Majority of the respondents are facing major constraints of finance.

- Majority of the respondents are facing problems of low production due to power shortage.
- Majority of the respondents are overcoming their power shortage problem by usage of generators.
- Majority of the respondents are facing marketing constraints of large scale competitors.
- Majority of the respondents overcome their marketing constraints through production of quality products.

## 8. Conclusion

Micro, small and medium enterprises (MSMEs) have recognized as engines of economics growth universally. In India it stands as second largest source of employment after agriculture. They account almost 40% of the industrial production. Micro enterprises are widely recognized as a powerful investment for socio – economic growth and balanced sectoral development. Coimbatore being an industrial hub does have lot of potential to attract small industries. The MSMEs in India face a tough situation due to extreme competition from large industries due to withdrawal of subsidy, lack of infrastructure, anti dumping policy, challenges on

product standardization, total quality management etc. Though Globalization has increased competitiveness in Indian MSMEs to certain extent, still Indian MSMEs are not adequately prepared to compete with the global players. There has been a definite change in attitude of the Govt. from protection to promotion of the MSMEs. The Govt. has taken several policy initiatives but needs to ensure proper co-ordination and implementation of such schemes. The MSMEs are not availing proper basic needs. If proper infrastructure and financial assistance is provided to these industries then there will be opportunities for these industries to flourish. Moreover the industrial policies by the union and the state govt. can still

liberalize certain procedure so that the micro enterprises will not have hurdle to gear up. Technical support, Consultancy Services, Infrastructural facilities, Research and Development support and better training and development aspects will promote the industries at a considerable level. The MSMEs must convert the threats of globalization into opportunities through increased productivity, product diversification, supply chain management, Research and Development activities. If all these support measures are given to Micro enterprises, No doubt, these Micro enterprises will contribute a major share in the Nation's National Scheme.

## References

1. Annual Report 2011-12, Govt. of India, Ministry of Micro, Small and Medium Enterprises.
2. Sonia and Kansai Rajeev (2009), "Globalisation and its impact on Small Scale Industries India", *PCMA Journal of Business*, Vol. 1, No. 2 (June, 2009) pp. 135-146, ISSN0974-9977, (Available in [http://www. Publishingindia.com/ Upload/Sample Article/PCMA-Sample- Article.pdf](http://www.Publishingindia.com/Upload/Sample Article/PCMA-Sample- Article.pdf), Accessed 27.9.2012 at 9.23a.m.)
3. Paramasivan, C., Economics of Small Scale Textile Industries: A Micro Study, *Southern Economist*, pp.25-28, June 15, 2010.
4. Dixit, A. and Pandey, A.K. (2011), 'SMEs and Economic Growth in India: Co integration Analysis', *The IUP Journal of Financial Economics*, Vol. IX, No. 2, PP. 41-59
5. Singh, R., Verma, O.P., and Anjum, B. (2012), 'Small Scale Industry: An Engine of Growth', *Zenith International Journal of Business Economics & Management Research*, Vol.2 Issue 5. Online available at <http://www.zenithresearch.org.in>
6. Venkatesh, S. and Muthiah, K. (2012), 'SMEs in India: Importance and Contribution', *International Journal of Research in Computer Application & Management*. Jan2012, Vol. 2 Issue 1, p77-81. 5p.