

## **Problems Faced By Micro, Small and Medium Enterprises – A Special Reference to Small Entrepreneurs in Visakhapatnam**

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**Abstract:** *Small businesses often face a variety of problems related to their size. A frequent cause of bankruptcy is undercapitalization. This is often a result of poor planning rather than economic conditions. It is a common rule of thumb that the entrepreneur should have access to a sum of money at least equal to the projected revenue for the first year of business in addition to his anticipated expenses. MSMEs in India face a number of problems - absence of adequate and timely banking finance, non-availability of suitable technology, ineffective marketing due to limited resources and non availability of skilled manpower.*

*These are often confronted with problems that are uncommon to the larger companies and multi-national corporations. These problems include the following: Lack of ITs Support, Lack of ITs Literacy, Lack of Formal Procedure and Discipline, Uneven ITs Awareness and Management Skill, Lack of Financial Resources, Lack of Human Resources, Raw Material problems, Production problem, etc.*

**Need of the Study:** *Micro, Small and Medium Enterprises play a dominant role in Indian Economy. But there are various problems faced by these enterprises due to which the growth of the enterprises is affected, in turn affecting the growth of the country. Hence the researcher felt a need to study the problems faced by MSMEs.*

**Objective:**

- *To Study about MSMEs*
- *To analyze and interpret five major problems faced by MSMEs in Visakhapatnam.*

**Methodology:** *Both primary and secondary data are used in the study. The study is empirical in nature as it is based on data collected with the help of schedule. The study focused the collection of data from one region in Andhra Pradesh i.e. Visakhapatnam. The sample size was 50.*

**Limitation:** *The data was collected from one region in Andhra Pradesh i.e. Visakhapatnam. The enterprises were selected at random. The enterprises selected were both registered and unregistered. As per the data collected there are many problems faced by these units, but in his paper only five major problems are emphasized. Though finance is a major problem, in analysis it has not been covered because, there are various reasons which leads to financial problem. All of them could not be covered.*

**Keywords:** *Micro, Enterprise, Problems.*

### **I. Introduction**

Bank for the purpose of lending treats “Enterprise” as a source for generation of employment (both employers & employees) in large numbers. Such enterprises are being broadly classified into –

- i) Enterprises engaged in manufacture/production of goods pertaining to any industry and
- ii) Enterprises engaged in providing/rendering of services.

Classification of MSME Sectors based on the original investment in plant and machinery with regard to Manufacture/production units & original investment in equipment with regard to Services units.

	Investment in Plant and Machinery/ Equipment (excluding land and Building)	
	Manufacturing Enterprises	Services Enterprises
Micro	Up to Rs. 25 lakh	Up to Rs. 10 lakh
Small	More than Rs.25 lakhs and up to Rs. 5 crore	More than Rs. 10 lakhs and up to Rs. 2 crore
Medium	More than Rs.5 crore and upto Rs. 10 crore.	More than Rs.2 crore and up to Rs. 5 crore

Small and large scale enterprises are two legs of industrialization process of a country. Hence, small-scale enterprises are found in existence in every country. Small-scale enterprises have been given an important place in the framework of Indian planning since beginning both for economic and ideological reasons. Small-scale enterprises have now emerged as a dynamic and vibrant sector for the Indian economy in the recent years.

Sangitha G Patel, Dr. P.T. Chadudhari, Problems of Small Scale Industries in India . (April, 2014). This paper dealt with Problems of S.S.I in India such as Problem of skilled manpower, Inadequate credit assistance, Irregular supply of raw material, Absence of organized marketing, Lack of Machinery & equipment and

Absence of adequate infrastructure, competition from large-scale units and imported articles. All these problems were discussed in general, but not relating to any particular State or Region.<sup>1</sup>

#### **LITERATURE REVIEW:**

Dr. M.S.Vasu, Dr. K. Jayachandra Growth and Development of MSMEs in India; Prospects & Problems. This paper discussed about the growth and performance of MSMEs and also listed out the problems faced by MSMEs in India, Problems in general were listed out, but not to a particular State or Region.<sup>2</sup>

Dr. A.S. Shiralashetti (2014), prospects & Problems of MSMEs in India. This paper covered growth, performance and contribution of MSMEs to GDP and also mentioned about the problems faced by MSMEs located in Dharwad district of Karnataka State.<sup>3</sup>

Rajib Lahiri (2011 ) the study made an attempt to critically analyze the definition aspect of MSMEs and explore the opportunities enjoyed and the constraints faced by them in the era of globalization after analyzing the performance of MSMEs in India during the pre and post liberalization period. The study revealed that except marginal increase in growth rate in employment generation, the growth rate in other parameters is not encouraging during the liberalization period.<sup>4</sup>

Dr. Padmasani, S. Karthika (2013), A study on Problems and Prospects of Micro, Small and Medium Scale Enterprise in Textile Exports with special reference to Tirupur and Coimbatore District. This paper has examined the problems of MSMEs in the era of global economy and also has identified the factors affecting MSMEs. A study was also made on the socio-economic conditions of MSMEs. The survey revealed that the problems can be overcome if MSMEs get involved in standardization of the business process, and can also adopt latest technology to improve the productivity. It was said that banks can support the industry by providing the credit facilities at low interest rate and Government and Institutions relating to Small and Medium Scale industries should take effective measures to improve the export performance of MSMEs in order to develop economy. The study covered the districts of Tirupur and Coimbatore district.<sup>5</sup>

Nishanth P, Dr. Zakkariya K.A. (May 2014) reviewed that “there exists problem in accessing finance from banks and financial institutions and also viewed that this problem may differ from region to region between sectors, or between individual enterprises within a sector. Various barriers faced by these units in raising finance and also tried to identify various sources of finance other than banks. The study was restricted to Kozhikode district in Kerala.<sup>6</sup>

Dr. Neeru Garg(Sept. 2014), Micro, Small and Medium Enterprises in India: Current Scenario and Challenges,. This paper made an attempt to highlight the growth of this sector and analyze various problems and challenges faced by MSME sector in India in general.<sup>7</sup>

K. Suneetha and T.Sankaraiah, Problems of MSMEs and Entrepreneurs in Kadapa District, IOSR Journal of Economics and Finance: The study conducted a survey on 156 enterprises to study they problems. It was found that 103 enterprises were facing financial problems and among them 62.8 per cent are from Micro enterprises. Moreover 23 percent found as meager assistance from government agencies. In the study the divisions of Kadapa, Jammulamadugu and Rajampet were covered.<sup>8</sup>

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1. Sangita G. Patil, Dr. P.T. Chaudhari, “Problems of Small Scale Industries in India”, International journal of Engineering and Management Research, Vol.4, Issue-2, April-2014, ISSN No. 2250-0758; pp. 19-21.
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  3. Dr. A.S. Shiralashetti; “Prospects and Problems of MSMEs in India- A study; International Journal of Interdisciplinary and Academic Research (SSIJMAR); Vol. 1, No. 2, July-August; ISSN 2278-5973; pp 1-7.
  4. Rajib Lahiri; Problems and Prospects of Micro, Small and Medium enterprises (MSMEs) in India in the era of Globalization;www.rtc.bt/Conference/2012-10.../6
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**SOME OF THE MAJOR PROBLEMS FACED BY THESE UNITS ARE:  
PROBLEM FACED IN RESPECT OF FINANCE:<sup>9</sup>**

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 exhorbitated 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.

Based on the research underwent at the Centre for Analytical Finance (CAF) at the ISB, and partly on the work done for the Financial Sector Reforms committee headed by Professor Raghuram Rajan, Eric J. Gleacher Distinguished Service Professor of Finance, University of Chicago during 2007-08, it was found that the firm size is inversely related to dependence on alternative financing sources; the smaller the firm, the higher is the proportion of alternative financing in the total. It was also found that poor profitability and lack of access to formal capital markets and institutions result in heavy dependence on alternative financing channels. It was said that funding from those channels is considerably costlier than funding from formal sources. This creates a most unfortunate vicious cycle in the pattern of funding. High cost of funding results in poor profitability. Poor internal cash flow generation limits ability to service formal bank debt, and makes the firm less creditworthy from a bank's point of view. This, in turn, leads to greater dependence on alternative channels.

The organizational pattern of the micro enterprises places them at a distinct disadvantage vis-à-vis the large-scale enterprises. It is due to this peculiarity of micro and small enterprises, 'Murphy's Law' i.e., "If anything can go wrong, it will" squarely applies to them. This disadvantage has given rise to various problems with which the micro and small enterprises have been contending with.

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 major problem that the micro and small enterprises have to content with is the procurement 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.

Even the micro and small enterprises that depend on local resources for raw material requirements facing various problems. Keeping in view the problem of raw material the Government made provisions for making raw material available to these units. But these units are not in a position to liaise with the official agencies and are left with inadequate supplies of raw material. As a result, they have to resort to open market purchases at very high prices. This, in turn, increases their cost of production, and, thus, puts them in an adverse position compared to large units.

The quantity, quality and regularity of the supply of raw materials are not satisfactory. There are no quantity discounts, since they are purchased in small quantities and hence charged higher prices by vendors. They also experience difficulty in procuring semi-manufactured materials. Due to financial problems these enterprises are unable to secure raw material in bulk in a competitive market.

**PROBLEM OF MARKETING:**

One of the main problems faced by the micro and small enterprises is in the field of marketing. These units often do not possess any marketing organization. In consequence, their products compare unfavorably with the quality of the products of the large-scale industries. Therefore, they suffer from competitive disadvantages vis-à-vis large-scale units.

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9. Ipshita Basu Guha (Nov. 2011), Problems relating to Finance: Literature Review of "Innovative financing for SMEs".

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. The National Small Industries Corporation set up in 1955 is also helping the small units in obtaining the government orders and locating export markets. Ancillary units face the problems of their own types like delayed payment by parent units, inadequacy of technological support extended by parent units, non-adherence to quality and delivery schedules, disturbing the programmes of the parent units and absence of a well-defined pricing system and regulatory laws.

**PROBLEM OF UNDER-UTILIZATION OF CAPACITY:** there are studies that clearly bring out the gross under-utilization of installed capacities in micro and small enterprises. According to Arun Ghosh (Ghosh 1988: 315-316), on the basis of All India Census of Small-Scale Industries, 1972, the percentage utilization of capacity was only 47 in mechanical engineering industries, 50 in electrical equipment, 58 in automobile ancillary industries, 55 in leather products and only 29 in plastic products. On an average, we can safely say that 50 to 40 percent of capacity were not utilized in micro and small enterprises.

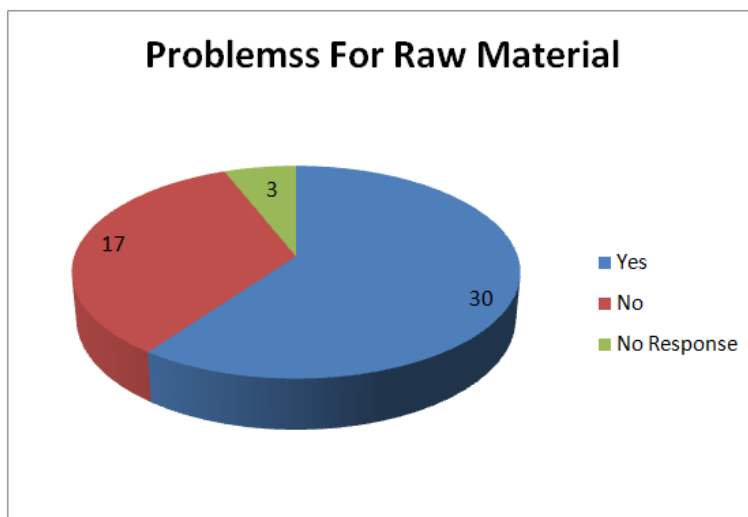
The very integral to the problems of under-utilization of capacity is power problem faced by micro and small enterprises. In short, there are two aspects to the problems: one, power supply is not always available to these units, and whenever it is available, it rationed out, limited to a few hours in 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 meager means.

**OTHER PROBLEMS:** In addition to the problems enumerated above, the micro and small enterprises have been constrained by a number of other problems also. According to the Seventh Five Year Plan (GOI 1985: 98), these include 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.

**ON THE BASIS OF THE DATA COLLECTED THE FOLLOWING 5 MAJOR PROBLEMS FACED BY MSMES IN VISAKHAPATNAM ARE ANALYZED.**

**1. PROBLEMS FACED FOR PROCUREMENT OF RAW MATERIAL**

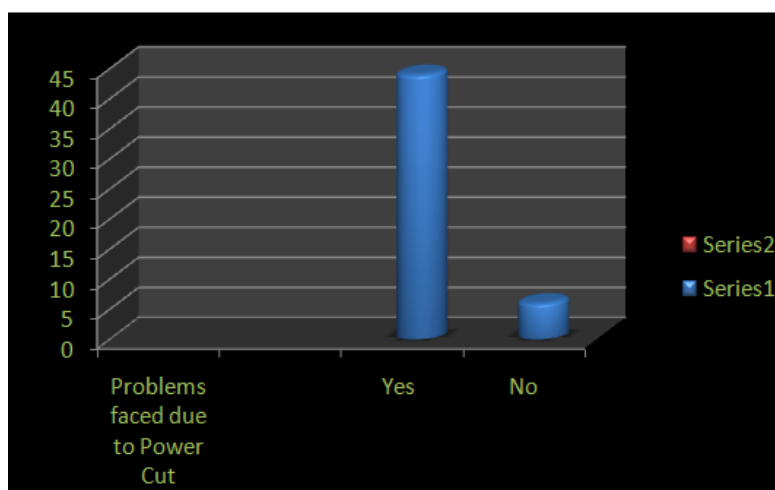
Yes	30
No	17
No Response	03
Total	50



17 of the respondents said that they did not face problems in getting raw material and 30 of them said that they face problems in this respect. These respondents are not aware of subsidy schemes given by the government and though some of them are aware they have no knowledge of how to utilize them. The quantity, quality and regularity of the supply of raw materials are not satisfactory. There are no quantity discounts, since they are purchased in small quantities and hence charged higher prices by vendors. They also experience difficulty in procuring semi-manufactured materials. Due to financial problems these enterprises are unable to secure raw material in bulk in a competitive market.

### 2. PROBLEM FACED IN POWER CUT

Yes	46
No	4
Total	50

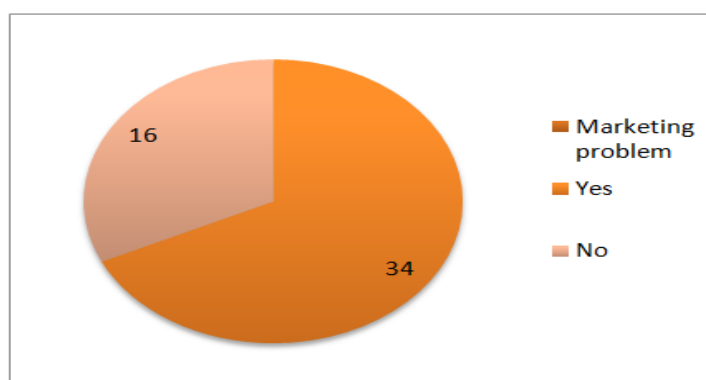


Power cut is the major problem faced by MSMEs nowadays. 46 of the respondents expressed that due to power cut they faced serious problems. Only 4 of the respondents expressed that they did not face problems due to power cut.

The power cut in industrial area is tremendous. This is a great problem faced by micro enterprises. In addition to daily power cut, there is one particular day in each area where the power cut is for the entire day. This is hampering the production of these units. These micro organizations are not in a position even to use generators because of financial problems, and even if they are having generator they are not in a position to use it due to high cost of diesel charges.

### 3. MARKETING PROBLEMS

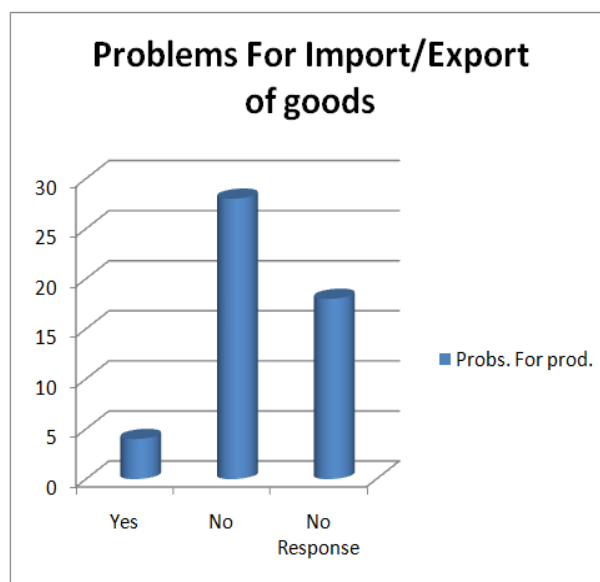
Yes	34
No	16
Total	50



Out of 50 respondents 34 said that they faced problems in marketing and only 16 of them said that there were no problems. These micro enterprises have to face the competitions from large scale units in marketing their products. These enterprises do not use up dated technology so the goods produced by them cannot satisfy the modern tastes. Hence the potential demand for their goods remains under-developed. Due to finance constraints and production small in size, it is not possible for them to market their products. They depend and rely at the mercy of middle men.

#### 4. PROBLEMS RELATING TO IMPORT/EXPORT OF GOODS

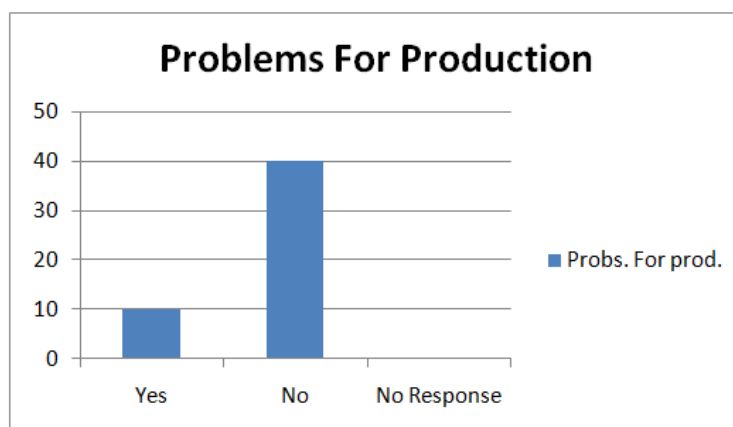
Yes	4
No	28
No Response	18
Total	50



28 of the respondents do not face problems relating to import/export of goods. Only 4 of them said that they face problem regarding this issue and 18 of them did not give any response. The reason of non response is that these units are tiny units where the owner is not aware of import or export of goods. They business is restricted to local area itself.

#### 5. PRODUCTION PROBLEM

Yes	10
No	40
No Response	0
Total	50



From the above table it is understood that 40 out of 50 respondents do not face any problem relating to production. Only 10 of them disclosed that they face problems relating to production. Though majority of them said that they do not face any problem, but based on the other tables relating to power, material etc. it can be said that most of the respondents face problem in production, because problem of power, material etc. will ultimately effect the production. Hence it shows that the respondents were not correct in responding to this question.

## II. CONCLUSIONS & SUGGESTIONS

The main purpose of data collection was to study how the entrepreneurs managed the micro, small and medium enterprises. What are the various problems faced by these enterprises. It also showed how the role of MSMEs helped in economic restructuring and development of India. Empirical data revealed that hurdle like financial constrain and issues relating to power, raw material procurement should be more effectively dealt by the government. Further, the data collected revealed that overall globalised business environment of India has been average favorable for the growth of micro and small scale industries. The nub of the data is that the MSMEs have played role in employment generation in India.

Due to the acute power shortage, industrial units are managing only 50 per cent of capacity and they situation has turned from bad to worse without inability to pay even workers' salary. Since most of the enterprises complained about non availability of labour (though this problem is not covered) Government need to look into this matter. It has to amend the labour laws which are contemporary and relevant to the present globalized scenario.

Simple and clear policies and acts are to be made so that these enterprises can understand them and utilize as well as implement them in their business for compliance and secure benefits. There are many government schemes but from the study it was observed that most of these enterprises are not aware and do not understand how they can benefit out of them.

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