

A Study on Challenges Faced By SMEs in India

Dr. Varsha Agarwal, Ujjawal Agrawal, Ajit Mk, Sohail Khan

Abstract— SMEs are considered to be driving stone of any country's economy be it under developed or developed as it provides maximum employment to locals and helps in raising the standard of living. The SMEs sector consisting of 36 million units provides employment to over 80 million persons. The sector through more than 6000 products contributes about 8% to GDP besides 45% to the total manufacturing output and 40% to the exports from the country (Bhoganadam, Rao, Rao 2017). The Micro and Small-scale Enterprises are grown very rapidly over the years. The Government of India has initiated number of program and schemes to promote the business Enterprises. According to the fourth census of SMEs Govt. of India, there are 15.64 Lakh registered and working SMEs in India. Micro enterprises have vast scope covering activities like manufacturing, servicing, financing, retailing, construction, infrastructure etc. These 15.64 Lakh registered SMEs providing employment to 93.09 Lakh needful people. Out of 15.64 Lakh registered SMEs, 10.49 Lakh (67.01 per cent) are manufacturing Enterprises, 2.62 Lakh (16.78 per cent) are service Enterprises and 2.52 Lakh (16.13 per cent) are repairing and maintenance Enterprises in India. (Govt. of India 4th census 2014-15). It has proved to be very highly dynamic sector in Indian economy which not only plays an important role in providing employment opportunities to people but also facilitates in the growth and development in rural areas which provides many facilities to the people living in or around the industry. It proves to be cost beneficial for industrialists in developing economy as it requires less capital compared to large industries. It also plays prominent role in boosting production in country and gives a major base for self-reliance and domestic production. According to various researches and examples taken into consideration the major problems faced by SMEs in India are: -

- Lack of skilled labours and availability of labours
- Lack of infrastructure facilities
- Unstable Government policies
- No proper clarity in business tax rates
- Lack of funding and investment
- Unavailability of Raw – Materials
- Lack of upgraded technology

Due to these challenges the growth of SMEs is very slow in India which is affecting the Indian Economy on a very large scale. Solutions to these problems can open many doors to revive the Indian Economy and improve the conditions.

Index Terms— SMEs (Small and Medium Enterprises), Import, Export, GDP (Gross Domestic Product)

I. INTRODUCTION

SMEs plays an important role in the development and growth of country's economy. The SMEs sector consisting of

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About 94 % of the total SMEs are Micro Enterprises, i.e. Enterprises with investment less than twenty-five Lakh rupees. There are around 2443 clusters covering 321 products in the SMEs sector. There are many Enterprises in the unregistered sector and it is estimated that almost 91.46 Lakh units are operating in this sector. Undoubtedly, Small scale sector in India, which was earlier operating in a protected environment, faces new challenges in the era of globalization. With the process of liberalization, there is high increase in competition, free movement of goods, investment, strategic alliances for product development, production, sourcing and marketing. (Shodhganga infliibnet)

In accordance with the provision of Micro, Small & Medium Enterprises Development (SMESD) Act, 2006 the Micro, Small and Medium Enterprises (SMEs) are classified in two Classes:

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) or employing plant and machinery in the process of value addition to the final product having a distinct name or character or use. The Manufacturing Enterprise are defined in terms of investment in Plant & Machinery.

Service Enterprises: -The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

The limit for investment in plant and machinery / equipment for manufacturing / service enterprises, are as under:

The amount of investment in Micro Enterprises should not exceed the limit of twenty-five lakh rupees, for the Small Enterprises it should be more than twenty-five lakh rupees but should not exceed five crores rupees and for the Medium enterprises should be more than five crores but does not exceed ten crore rupees.

The amount of investment in Micro Enterprises should not exceed the limit of ten lakh rupees, for the Small Enterprises it should be more than ten lakh rupees but should not exceed two crore rupees and for the Medium enterprises should be more than two crore rupees but does not exceed five crore rupees (**SMEs Act 2006**)

II. LITERATURE REVIEW

The biggest challenge for the SMEs is the low export subsidy provided by the Government of India to the small and medium scale industries as they are very important for an industry to compete with the pricing strategy of other big economies of the world. The competitors enjoy higher number of subsidies from their government than Indian SMEs. The second biggest stood is the infrastructure required for the development of SMEs in India. Infrastructure related problems like the factory set-up, capacity, remoteness to ports, accessibility to the export destination, lack of warehouses in the foreign markets, etc. pose serious challenge to the Indian small and medium sized exporters as compared to their competitors and the third being the market awareness and export promotion problems as they fell short of specific market information due to lack of export promotion and business development exercises. Export promotion is also minimal because of limited amount of funds and lack of information about the export markets (Ghouse 2017).

The problems faced by SMEs in India are related to the lack of credit facilities from banks and other financial institutions, infrastructure problems, unavailability of raw materials, lack of training to employees, lack of skills both organisational and technical, competitions from large companies. These major challenges are making them incapable of competing the companies of other big economies and making their profit generation process slow and which is affecting the growth of the company (Mathai 2015).

The challenges faced by SMEs in India are high cost of credit, difficulty of procurement of raw materials at a competitive price, inadequate infrastructural facilities, and lack of skilled manpower. The following case study also took into account a case on Indian Coir industry which proved that exports in global market has increased with time but the export earnings has decreased and the industry is facing a tough competition with the global players (especially China). To overcome such problems a technological upgradation is required and the promotion of Coir product is required in the global market which will differentiate Indian products with others (Mukherjee 2018).

Lack of accessibility to investment, technology equipment and know-how; non-conformity of standardization; lack of quality awareness and lack of mutual recognition schemes; product and service range and usage differences; language barriers and cultural differences; risks in selling abroad; competition of indigenous SMEs in foreign markets; ;inadequate behaviours of multinational companies against domestic SMEs; key challenges faced by the SMEs sector in India includes, lack of availability of adequate and timely credit; high cost of credit; collateral requirements; limited access to equity capital; procurement of raw material at a competitive cost; problems of storage, designing, packaging and product display, ;lack of access to global markets; inadequate infrastructure facilities, including power, water, roads, etc; low technology levels and lack of access to modern technology (Yadav and Tripathi 2018).

Development and implementation of any innovation demands skilled labour. The need for specialized skills in the form of scientists, technicians, or engineers is more apparent in the case of R&D innovations. Non-R&D innovations, such as organizational and marketing innovations, also require specialized skills and staff who are well versed in management and marketing practices. More than 85% of innovative small and medium firms see unavailability of skilled workers as a barrier to innovation, making it one of the foremost challenges in SMEs innovation.

SMEs are generally unable to recruit a highly skilled workforce due to financial constraints and lack of adequate infrastructure. This includes internal management. The lack of the right internal management can adversely impact both the firm's innovation capability and its overall performance due to lack of direction, rising inefficiencies, and absence of market focus, among others. More than 38% of innovative small and medium firms perceive internal management as a barrier to innovation.

The situation demands more targeted capacity building programs focused on a company's internal management and its relevance to innovation. There also seems to be a need for a system where SMEs have access to a pool of skilled people for conducting specialized work while addressing concerns about trade secrets (Pachouri and Sharma 2016).

The growth of SMEs was increased from year by year with an average number of registered units in SMEs sector. They identified small scale sector problems as relating to man power, lack of credit assistance, organized marketing, inadequate infrastructure, competition, poor planning, managerial skills, transportation facilities, lack of power, lack of ware housing facilities, lack of information etc. (Patil and Chaudhari 2014).

There are majorly six challenges which are difficulty of acquiring finance and credit instruments, complicated regulatory policies for starting a business, unavailability of modern and Affordable technology, lack of basic infrastructure facilities, absence of exclusive marketing Platforms and distribution networks, inflexible labour laws and availability of affordable Skilled labour. Government should implement some schemes for encouraging SMEs (Tripathi 2016).

Due to market globalisation, SMEs in India are feeling severe pressure to perform at international standards in terms of cost, quality, delivery speed and flexibility. To meet these demands of the market, organisations feel certain constraints. The lack of financial resources, lack of skills appropriate to the technology and inability to conduct a detailed information search significantly increase technical, financial, business and personal risks (Deshmukh 2008).

SMEs are facing issues from both internal and external factors. External sources are those which aren't in the control of the SMEs and hence cannot be changed easily. Internal sources are those sources which can be controlled by SMEs easily.

External challenges for SMEs include all the socio-cultural factors like education, caste, religion, family background and networks which influence an individual. External factors include all management related factors like, financial and infrastructure related factors etc. and Internal factors include all management related factors like production, marketing, human resource development (Bhoganandam 2017).

Current economic survey interprets that Indian economy is growing at 7% per annum and it is likely to be \$5 trillion economy by the year 2025. Hence, the development of SMEs are detrimental to the development of economy. In spite of a high growth rate, there have been some notable barriers in the development of SMEs. The most notable barriers are inadequate infrastructural facilities, lack of skilled manpower for manufacturing etc. The Indian SMEs are lacking the updated information and are unaware of the latest technologies present in the global market. Information and Communication Technology can play a bigger role for SMEs as they face stiffer competition from their rival neighbouring countries (China, Indonesia, Philippines and Thailand) (Mukherjee 2017).

III. RESEARCH PROBLEM

To understand the difficulties and challenges faced by Small and Medium Scale Enterprises, the factors affecting the growth and development of SMEs and to bring out possible solutions of eliminating or reducing the difficulties.

IV. RESEARCH OBJECTIVE

- To study the concept, nature, and role of entrepreneurship and concept of SMEs in India.
- To study the challenges faced by Small Enterprises in India.
- To compare the economic performance like investment, sources of borrowings, credit policy, profitability, share in export etc. of Small Enterprises.
- To Study the effect of challenges on these Enterprises.

V. RESEARCH METHODOLOGY

The research methodology used in the research are Quantitative research and Descriptive research. Quantitative research is a structured way of collecting data and analysing it for conclusion. This research method uses statistical way to collect and analyse the data. The way of research used in this experiment is questionnaires to 10 SMEs

regarding the problems faced by them in the course of their business.

Descriptive research focuses on throwing light on current issues through a process of data collection. Descriptive studies are used to describe the behaviour of a sample population. There is only one variable required to conduct a study. The variable for this research will be SMEs and the research will be conducted to find the problems and to suggest certain solutions for the same.

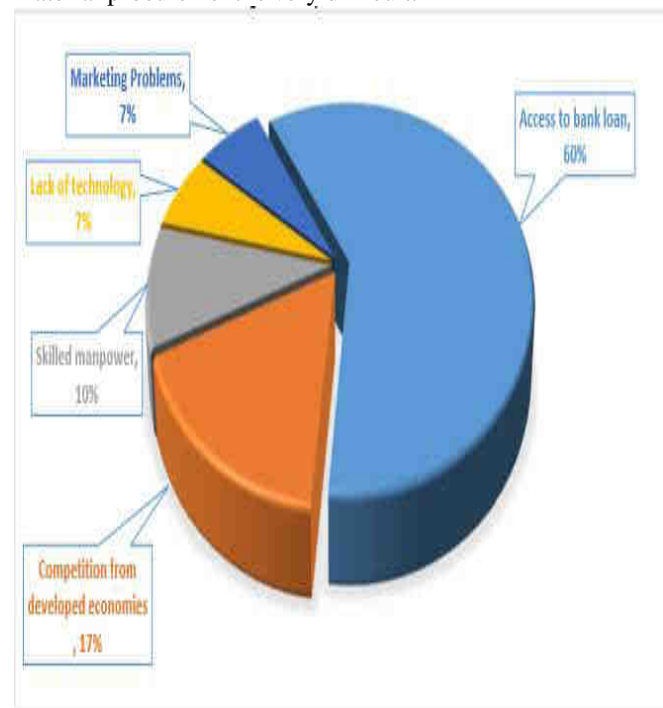
The problem here is the challenges faced by SMEs in India.

VI. RESEARCH ANALYSIS

The major challenges faced by SMEs in India were: -

- Lack of infrastructure
- Lack of capital
- Labour availability
- Government policies
- Marketing problems
- Availability of Raw-materials

According to the data collected by Saini (2014) Nine out of ten (87%) of the SMEs had applied or procured working capital through bank finance and bank term loans. None (0%) of the ten Micro units taken by him for sample has ever applied for bank loan owing to rejections whereas only 4 (30%) out of 13 Small enterprises applied for it due to lengthy and complex paperwork. The labour availability and Raw material procurement is very difficult.



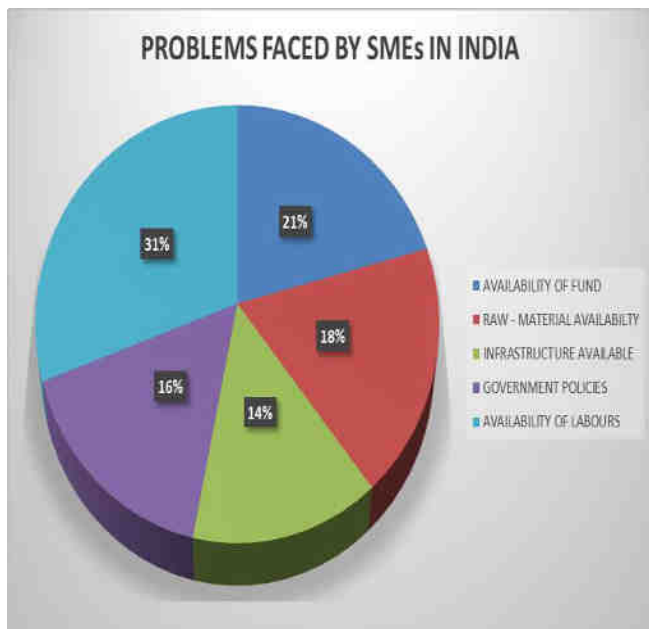
(DATA TAKEN FROM THE RESEARCH OF SAINI 2014)

VII. RESEARCH FINDINGS

According to the survey conducted by our group over 12 Registered and Unregistered SMEs in India, we found out that the common problems faced by SMEs now are: -

- Fund procurement
- Infrastructure development
- Government policies
- Raw – material procurement

8 out of 12 found it really difficult to procure funds, 6 out of 12 firms found it difficult to procure the Raw materials required for the production. Only half of the total sample study were satisfied with the infrastructure and half of the sample thinks government policies are not beneficial which is affecting the production and growth of SMEs in India which is pulling them behind and setting them behind their global competitors.



From the above data it can be proved that there is constant efforts made by Government of India to ease the business as acquiring funds from bank is compatibly easier than before, constant change in Government policies is creating confusion among business organisations, availability of labour is still a big concern for the business and the Raw- Material availability is still a big concern for the SMEs in India.

From the study conducted by our team the problems certain problems came into light which are affecting the sales of SMEs are: -

- No clarity in logistics cost
- Taxations complexity

CONCLUSION

From the above information this is proved that the challenges faced by SMEs of India is putting them way behind their competitors both in terms of sales and production as the production is less and the export price and formalities are very complex which make the Indian SMEs to opt out from the foreign trade. They are not able to meet the global prices of the product and the lack of infrastructure and technology is also affecting the quality of goods produced by Indian SMEs.

LIMITATIONS

Unavailability of data and the statistics for the current year was the biggest limitation for the research as the data available was of 5-6 years back or second hand data and the research done by us was very limited in number was the major difficulty in giving the great clarity in the research. The in-depth analysis of the research was not possible due to above reasons. As the data gathered by my team from

different sources are historical and based on very small sample data, so there are chances that the result may vary with the current scenario i.e. , The Challenges faced by SMEs in India as the continues efforts of the present government to make the business for SMEs feasible in India might be ignored.

FURTHER SCOPE OF STUDY

To analyse the factors which are affecting the SMEs in India which are placing them behind their global competitors. To take into consideration the recent data and surveys to find out the recent trend with bigger and more diversified data. There is further scope to analyse the steps taken by Government of India and other business houses and Banks to ease business in India and improve SMEs condition in global level.

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