



Problems and Challenges of MSMEs in Telangana

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Abstract

MSMEs play a major role in the development of the most of the economies globally. MSMEs form the backbone of the Indian economy and are also called as engine of economic growth. Despite the fact that these play a very significant role in GDP, manufacturing, exports and also employment, they continue to face very distinctive set of challenges. The primary problem they continue to face is unavailability of finance; among other problems are skilled labour not available, shortages of raw material and marketing of their products. This research paper explores the specific problems and challenges congregate by the MSME sector. In this study the researcher has surveyed those MSMEs who have availed finance from banks and financial institutions and try to find out the other problems faced by them affecting their performance. Here stratified random sampling was adopted based on the interviews of 112 entrepreneurs and managers of MSMEs; the data was collected with the help of structured questionnaire. It was found that for MSMEs Excessive competition from LSI, MNCs and other units is a major problem, whereas availability of cheap substitutes is also affecting their performance.

KEYWORDS: Challenges, GDP, Exports, MNCs, LSI

Introduction

In spite of various policy measures taken by the governments since independence, most of the problems of MSMEs still continue to trouble the sector. MSMEs huge contribution to employment generation and the role they play in sustainable development prompted many countries around the world to come up with special programs and support organizations for the development and growth of this sector. But the financing problems still persevere; MSMEs entrepreneurs generally have restricted access to finance. This compels them to borrow from unregulated lending markets or from their own dealers and they end up paying much higher interests. Not only does this lead to overpricing of products, but also confines the MSME entrepreneurs' ability to add value, upgrade technology, quality and adopt modern management methods. Thus accessibility of finance at affordable cost is significant for Indian MSMEs. In this study it has been attempted to identify the different problems and challenges faced by MSMEs who in spite of availability of finance face different problems in their working.



Objectives of the study

1. To assess the different factors affecting the growth and performance of MSMEs.
2. To know the different challenges and problems MSMEs have to face

To know whether there is any significant difference among the problems faced by assisted MSMEs the hypothesis has been framed and the data has been analyzed using ANOVA one way.

Hypothesis of the study

Ho: There is no significant difference between the problems faced by the assisted MSMEs

Ha: There is significant difference between the problems faced by the assisted MSMEs

Methodology

Area of Study

The survey was done in two districts of Telangana namely, Hyderabad and Rangareddy.

Sample Selection

To conduct the study, 112 MSMEs were surveyed pertaining to eight different sectors namely food, chemical, pharmaceutical, engineering, service, plastic, printing and miscellaneous industry.

Collection of Data

Primary data for the study is collected from MSMEs by using a structured questionnaire.

Data Analysis

The information gathered was tabulated and was analyzed by using percentage and ANNOVA one way

Reference Period

The data for the study was collected during the period October 2014 – December 2014

Review of Literature

Deb, Ranabijoy specified the various constraints which hinder the growth of SSI which leads to lack of full capacity utilization were insufficient marketing, inadequate working capital,



unavailability of raw material, unavailability of skilled labour, inadequate power, transportation and climatic conditions, ineffective implementation of various incentive, supporting measures of the government, their channeling procedures and entrepreneurs response and attitude to such measures.

In their study Indian Institute of Management evaluated the effectiveness of District Industries Centre (DIC) programs in Andhra Pradesh. The study show casts deficiencies in the various schemes of DIC. It was viewed that the indifferent attitude of DIC towards the various problems of small entrepreneurs like term loan assistance, working capital assistance, capital subsidy, land and factory shed have left them in a very pathetic condition.

Christopher, Mahemba and Erik appraised the weak relationship between the growth performance of MSMEs and their innovative behaviour, on account of organizational, product and process changes, use of obsolete technology in manufacturing for lack of awareness and non availability of new technology and heavy dependence on foreign technology. The authors recommend a national innovation policy, that links together all the economic factors of a nation.

Farooqi, evaluated that SSIs always prefer to manufacture a reserved item and establish their own brand equity using the latest technological tools. However, they are often not able to do so, as they have to restrict their investment in plant and machinery to remain classified as a small scale industry. Therefore SSI under such environment and conditions have to opt for horizontal growth, use obsolete technology and yet withstand global competition which often leads to sickness due to their inability to compete. It is recommended that SSI should spend more on R&D, opt for better infrastructure, marketing of products and have more funds for modernization.

Challenges

Despite showing a healthy growth rate of over 10% over the last 5 years, the MSME sector is besieged with operational problems due to size and nature of business. In 2010, the Prime Minister of India appointed a task force set up under the chairmanship of the Principal Secretary, to consider various issues raised by MSME associations, discuss with the stakeholders and chalk out an action agenda. The key issues identified by the task force, and subsequently taken up by the Planning Commission in the 12th plan are as follows:



Financing of MSMEs

MSMEs require timely and adequate capital infusion through term loans and working capital loans, particularly during the early and growth stages. Historically the MSMEs have relied on following sources for financing their needs:

- Retained earnings, funding through sale of assets
- Ancestral capital, personal savings, loans from relatives, loans from unregulated market
- Institutional financing from scheduled commercial banks
- Venture capital funds/ seed funds

Among the formal financial institutions, commercial banks constitute the largest source of financial assistance for the MSME sector at about 87% as of 31st March 2011. The outstanding MSE credit by SCBs recorded a strong growth of 34% in FY 2011 on a strong base of 3,62,291 crore INR as of 31st March 2010.

Financing related

- Non-availability of adequate and timely credit;
- High cost of credit;
- Collateral requirements;
- Unavailability / insufficient working capital
- Recovery from debtors
- Diversion of working capital funds for acquisition of fixed assets
- Excessive paper work while availing loan from FIs

Managerial / Legal and tax related

- Multiplicity and procedural complexity of labour laws;
- Issues relating to taxation, both direct and indirect, and procedures thereof.
- No mechanism for quick revival of viable sick units and speedy shutdown of unviable sick units

Raw Material and Operations related

- Problems in supply to government departments and agencies;
- Cost efficient procurement of raw materials;
- Problems of storage, designing, packaging and product display.



Infrastructure and technology related

- Lack of access to global markets;
- Inadequate infrastructure;
- Lack of access to modern technologies;
- Lack of skilled manpower in manufacturing, services, marketing, etc.

Marketing related

- Limited local market
- Less Variety of goods offered to market
- Price of the product is high

Labour related

- Labour Absenteeism / turnover
- High rates of wages / salaries
- Shortage of manpower
- Poor industrial relations.

Problems and Challenges of MSMEs

While many studies show the performance of MSMEs, it is equally important to analyze the factors which lead to the poor operational performance of MSMEs. To measure the impact of factors responsible for poor performance on account of operational problems twenty five variables are identified in the questionnaire, these variables are drawn from six essential areas namely financial, marketing, managerial, raw material, labour, and technology. A five point Likert scale has been used to measure the impact of these variables.

Finance Problems

Finance may be starting point of the vicious circle for MSMEs. Finance related constraints have been identified as the foremost factor affecting the growth of SME. This situation has led to use of out dated technology, poor production facilities, absence of quality control, lack of market orientation and finally end up with relatively low profitability. Finance related problems may be categorised into four 1) Unavailability of finance, 2) Access to finance, 3) High cost of borrowings, 4) Management of finance Dasanayaka (2009).



Timely availability of adequate finance is most important issue which determines the survival and growth of MSMEs. The capital base of MSMEs is usually very weak as the initial investment of these units mainly arranged from their own fund or borrowed fund from unorganized sectors like friends, relatives and money lenders.

Table 1 Finance problems of Micro Small and Medium Enterprises

Factors	Very Low	Low	Moderate	High	Very High	Total
Unavailability / insufficient credit	8(7.14)	23(20.54)	9(8.04)	20(17.86)	52(46.43)	112(100.0)
High cost of credit	1(0.89)	15(13.39)	11(9.82)	57(50.89)	28(25.0)	112(100.0)
Shortage of Working Capital	0(0.00)	1(0.89)	4(3.57)	59(52.68)	48(42.86)	112(100.0)
Difficulty in getting amount from debtors	2(1.79)	9(8.04)	13(11.61)	54(48.21)	34(30.36)	112(100.0)

Source: Primary data

Much lesser proportion of required investment comes from organized sectors like banks, financial institutions and government channels; such credit is obtained at high rate of interest which will increase their working capital requirements. As shown in Table 1, the working capital arrangement for sample MSMEs are completed much to the extent from the informal sources than from formal sources. Thus the profit earned by them is not enough for working capital purposes.

Managerial Problem

Managerial problems may be due to absence of entrepreneur's education, absence of technical background, newly established enterprises, lack of managerial qualities etc.

Table 2 Managerial problems of Micro Small and Medium Enterprises

Factors	Very Low	Low	Moderate	High	Very High	Total
Lack of Management skills	4(3.57)	26(23.21)	13(11.61)	49(43.75)	20(17.86)	112(100.0)
Absence of long term planning	10(8.93)	28(25.0)	16(14.29)	38(33.93)	20(17.86)	112(100.0)



Dealing with Govt. laws	11(9.82)	22(19.64)	13(11.61)	30(26.79)	36(32.14)	112(100.0)
<i>Source: Primary data</i>						

From Table 2 it can be analyzed that 61 per cent of entrepreneurs consider lack of management skills as a problem.

Marketing Problems

One of the major problems confronted by MSMEs is marketing of products. Market is the final target of all industrial concerns whether small, medium or big. The produce of MSMEs have no value unless they are sold, marketing is a delicate task of linking what the consumers wants, then planning and developing a product or service which satisfies those demands and finally quoting the best price for that product. The proficiency of entrepreneurs in marketing their product plays a crucial role in success and growth of enterprise. Besides finance, marketing has been identified as a key element affecting the performance of MSMEs and leads to sickness and ultimately closure of units. MSMEs face numerous problems in marketing their products mostly on account of growing competition among themselves, from large scale industries (LSI) and imports of foreign products. In this era of liberalization and more so as these MSMEs do not go for marketing research which leads to failure of their products. Table 3 exhibit the marketing problems faced by MSMEs.

Factors	Very Low	Low	Moderate	High	Very High	Total
Weak market demand	5(4.46)	21(18.76)	9(8.04)	36(32.14)	41(36.61)	112(100.0)
Limited market available	10(8.93)	35(31.25)	7(6.25)	37(33.04)	23(20.54)	112(100.0)
Less variety of goods offered to market	12(10.71)	36(32.14)	19(16.96)	38(33.93)	7(6.25)	112(100.0)
Excessive Competition in the market	0(0.00)	7(6.25)	1(0.89)	37(33.04)	67(59.82)	112(100.0)
Technology of competitor is superior	6(5.36)	18(16.07)	13(11.61)	37(33.04)	38(33.93)	112(100.0)



Price of the goods offered to market is high	0(0.00)	26(23.21)	26(23.21)	48(42.86)	12(10.71)	112(100.0)
Dependence LSI	23(20.54)	24(21.43)	9(8.04)	21(18.75)	35(31.25)	112(100.0)
<i>Source: Primary data</i>						

Raw Material problem

The MSMEs suffer from problems in acquiring raw material. They could not acquire adequate raw materials due to various reasons like high cost of raw materials, fluctuation in the price of raw material, shortage of working capital, irregular supply of raw material, etc. This in turn compels MSMEs to use cheap and low quality materials, which in affect the quality of their finished products. Moreover, irregular supply of certain raw materials adversely affects their production schedules and delays delivery. Some of them are very scarce at times and abundant at others causing huge price variations Table 4 exhibit the raw materials problems faced by MSMEs.

Table 4 Raw material problems of Micro Small and Medium Enterprises						
Factors	Very Low	Low	Moderate	High	Very High	Total
Raw material not available	17(15.18)	20(17.86)	7(6.25)	30(26.79)	38(33.93)	112(100.0)
Fluctuation in the price of Raw material	9(8.04)	12(10.71)	12(10.71)	49(43.75)	30(26.79)	112(100.0)
Quality of raw material is not goods	9(8.04)	19(16.96)	12(10.71)	46(41.07)	26(23.21)	112(100.0)
Imports are difficult	62(55.36)	25(22.32)	15(13.39)	7(6.25)	3(2.68)	112(100.0)
<i>Source: Primary data</i>						

Labour Problems

Industrial production requires not only machinery and equipment but also skilled manpower, small and medium entrepreneurs in the study area face labour problems.

Table 5 Labour problems of Micro Small and Medium Enterprises						
Factors	Very	Low	Moderate	High	Very	Total



	Low				High	
Labour absenteeism	2(1.79)	28(25.0)	25(22.32)	44(39.29)	13(11.61)	112(100.0)
Unskilled labour available	9(8.04)	10(8.93)	12(10.71)	50(44.64)	31(27.68)	112(100.0)
Turnover of labour	8(7.14)	27(24.11)	21(18.75)	42(37.50)	14(12.50)	112(100.0)
High cost of labour	1(0.89)	23(20.54)	40(35.71)	43(38.39)	5(4.46)	112(100.0)
<i>Source: Primary data</i>						

The labour problem may be due to labour absenteeism, unskilled labour available, high turnover of labour and also for their high cost. But imparting proper training and education about the product and processes is an important factor for them. Table 5 exhibit the labour problems faced by MSMEs.

Technological Problem

Use of obsolete technology, is an important constraint faced by sample MSMEs, MSMEs firstly require funds at the time of establishment of the enterprise and secondly after some years when plant and machinery becomes obsolete. Most of the MSMEs feel that the finance disbursed to them is inadequate to technologically equip them for future challenges. Under these circumstances they face stiff competition from large scale industries and other foreign enterprises with their obsolete technology which ultimately results in less acceptability in the market, low sales, high manufacturing costs with low quality products. Secondly inadequate infrastructure available with the firm, shortage and irregular supply of power, and power cut specially during summer are the common problems faced by MSMEs in Hyderabad and Rangareddy districts. Table 6 exhibit the technological problems faced by MSMEs.

Factors	Very Low	Low	Moderate	High	Very High	Total
Obsolete Plant & Machinery	5(4.46)	27(24.11)	6(5.36)	42(37.50)	32(28.5)	112(100.0)
Inadequate infrastructure available with the firm	14(12.50)	21(18.75)	14(12.50)	31(27.68)	32(28.57)	112(100.0)



Quality of products	4(3.57)	11(9.82)	5(4.46)	38(33.93)	54(48.21)	112(100.0)
<i>Source: Primary data</i>						

It is seen that 66 per cent of MSMEs feel that they have obsolete plant and machinery and 29 per cent have the advanced manufacturing know how, 56 per cent are forced to face the problem of inadequate infrastructure with the firm and only 31 per cent feel that they have sufficient infrastructure. 82 per cent of MSMEs feel that their quality of products offered to market is inferior to their competitors whereas only 13 per cent believe that their quality is superior to competitors. The study supports the point of Khanna, (2001) that lack of infrastructure leads to failure in industrial development and Aziz & Babu (1997) that power shortages and breakdown will stagnant the industrial activity.

The scores of individual respondents were added and divided by total number of respondents whose scores were added. The responses are given ranks based on the percentage of scored obtained by each variable. The ranks for all problems have been arranged in ascending order and shown in table 7.

S.no.	Statistics	N	Mean	Sum	percent	Rank
11	Excessive competition in the market	112	4.46	500	89.29	1
3	Shortage of Working Capital	112	4.38	490	87.50	2
24	Quality of products offered to market is low	112	4.13	463	82.68	3
4	Difficulty in receiving amount from Debtors	112	3.97	445	79.46	4
2	High cost of borrowing	112	3.86	432	77.14	5
8	Weak Market Demand	112	3.78	423	75.54	6
1	Unavailability of credit	112	3.76	421	75.18	7
19	Unskilled labour available	112	3.75	420	75.00	8
12	Technology of competitor is superior	112	3.74	419	74.82	9
15	Fluctuation in the price of raw material	112	3.71	415	74.11	10
22	Obsolete Plant and Machinery	112	3.62	405	72.32	11
16	Low quality of material available	112	3.54	397	70.89	12
7	Dealing with Govt. laws	112	3.52	394	70.36	13
5	Lack of management skills	112	3.49	391	69.82	14
14	Raw material not available	112	3.46	388	69.29	15
13	Price of the goods offered to market is high	112	3.41	382	68.21	16
23	Inadequate infrastructure with the firm	112	3.41	382	68.21	17
18	Labour absenteeism	112	3.34	374	66.79	18
6	Absence of Long term planning	112	3.27	366	65.36	19



9	Availability of Limited local market	112	3.25	364	65.00	20
21	High cost of labour	112	3.25	364	65.00	21
20	Labour turnover	112	3.24	363	64.82	22
25	Dependence LSI	112	3.19	357	63.75	23
10	Less Variety of goods offered to market	112	2.93	328	58.57	24
17	Imports of raw material is difficult	112	1.79	200	35.71	25
<i>Source: Primary data</i>						

Testing of Hypothesis

In order to find out whether there exists any significant difference among the problems faced by different MSMEs, MSMEs are divided into eight different sectors like food, plastic, chemical, pharmaceutical, service, engineering, miscellaneous and printing and the key factors affecting their operational performance of these MSMEs have been grouped into financial, managerial, marketing, technological, raw material and labour.

To know whether there is any significant difference among the problems faced by MSMEs the hypothesis is tested with the help of ANOVA one way.

Ho: There is no significant difference between the problems faced by the assisted MSMEs

Ha: There is significant difference between the problems faced by the assisted MSMEs

Further analysis are done to find out sector wise whether there exists a significant difference in the problems faced by sample MSMEs and the results shown as under in Tables 8.

ANOVA		Sum of Squares	df	Mean Square	F	P	Result
Finance	Between Groups	450.9104	7	64.4157663	0.39534	0.90318952	Accept Ho
	Within Groups	16945.52	104	162.937675			
	Total	17396.43	111				
Managerial	Between Groups	6156.255	7	879.465018	3.118557	0.004992482	Reject Ho
	Within Groups	29329.06	104	282.010215			
	Total	35485.32	111				
Marketing	Between Groups	3510.404	7	501.486216	2.762822	0.011291118	Reject Ho
	Within Groups	18877.28	104	181.512295			
	Total	22387.68	111				



Raw material	Between Groups	18460.16	7	2637.16521	12.88244	0.0001	Reject Ho
	Within Groups	21289.84	104	204.710034			
	Total	39750	111				
Labour	Between Groups	4454.287	7	636.326747	3.132295	0.004836934	Reject Ho
	Within Groups	21127.63	104	203.150312			
	Total	25581.92	111				
Technological	Between Groups	9404.206	7	1343.45799	4.54611	0.000185144	Reject Ho
	Within Groups	30733.89	104	295.518166			
	Total	40138.1	111				

Table 8 shows the calculation of “F” value and “P” value at 5 percent significant level. The calculated value of ‘P’ is less than 0.05 at 5 percent significant level for managerial, technological, raw material, labour and marketing problems. It could be observed that five out of six variables have significant differences among all the sectors. Hence the null hypothesis that there is no significant difference between the problems faced by the assisted MSMEs is rejected and the research hypothesis that there is significant difference between the problems faced by the assisted MSMEs is accepted. Thus the study concludes that the finance problems are common among the different sectors of MSMEs, whereas there is significant difference in the other problems faced by MSMEs.

Conclusion

The objective of the present study is to analyze the different factors that hinder the performance of MSMEs who have availed finance from different sources. The major problems encountered by sample MSMEs could be summed up as shortage of working capital, lack of management skills, excessive competition, fluctuation in the price of raw material, availability of skilled labour and low quality of products offered to market. This study helps the reader to gain insights into the problems and challenges faced by the MSMEs in Telangana. It outlines a organized and definite system of understanding these pressure to the MSMEs functioning and existence such that further research can be done to investigate potent solutions to address the dire situation. The research highlights key elements such as the importance of finance in the sector. It asserts that perhaps availability of finance is not as much of a problem as now different banks and financial institutions have shown a helping hand to this sector but other problems continue to threaten the profitability of this sector.



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