



# A Study of Small and Medium Enterprises

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**Abstract:** A rising standard of living is the result of many contributing factors interacting in a complex pattern. One such contributing factor is the capacity of a nation's firms to achieve high levels of productivity, and to increase productivity over time. Small and Medium Enterprises (SMEs) in developing countries have significantly lower productivity, as measured by added value per employee in comparison with developed countries. One reason for this imbalance is the traditional business practice in many developing countries of price competition as opposed to product innovation and superior customer value. The concept of added value is used to characterize three business strategies with decreasing, unchanged and increasing added value. In the third strategy the increased added value is the result of a price increase, justified through improved functional product or service quality.

**Keywords:** *Financial Access, Credit, Constraints, Regulation, industrial sector, India, economy and labour*

## I. INTRODUCTION

Small and Medium Enterprises is an integral part of the Indian industrial sector. The distinctive feature of Small and Medium Enterprises (SMEs) are less capital investment and high labour absorption which has created unprecedented importance to this sector. As per the Development Commissioner of Micro, Small and Medium Enterprises (2001), the sector has the credit of being the second highest in employment, which stands next to agricultural sector. The nature of the businesses in this sector plays an important role to alleviate poverty and propel sustainable growth and equitable distribution of income in India. The SMEs play an important role in efficiently allocating the enormous labour supply and scarce capital by implementing labour intensive production processes. SME triggers private ownership, boosts entrepreneurial skills and their flexibility in responding quickly to changing market demand and supply conditions are noteworthy.

## II. FACTORS AFFECTING SME'S

MSMEs in India face several problems such as, lack of availability of adequate and timely credit, high cost of credit, lack of collateral requirements, limited access to equity capital, problems in supply to government departments and agencies, procurement of raw materials at a competitive price, issues of storage, designing, packaging and product display, lack of access to global markets, inadequate infrastructure facilities like power, water and roads, low technology and lack of access to modern technology, problems of skilled labour for manufacturing, services and marketing, multiplicity of labour laws and complicated procedures, absence of a suitable mechanism which enables the quick revival of sick enterprises and measures to close down the unviable entities and issues relating to direct and indirect taxation and their procedures

Benefits  
Small businesses survive and prosper for many different reasons:

- Developing personal relationships - small businesses are well placed to build personal relationships with customers, employees, and suppliers. With a small business you know who you are dealing with; you can 'put a face' to the person you are in contact with. Person-to-person interaction is as important as ever in building strong relationships.
- Responding flexibly to problems and challenges - in a small business there is little hierarchy or chain of command. Large businesses may have set ways of operating and establish procedures that are hard to change. Small businesses are often far more flexible. It can also reach a quick decision on whether or not it can do what is required.
- Inventiveness and innovation - small businesses are well positioned to introduce and develop new ideas. This is due to their owners not having to report or

seek approval from anyone else. For example, when Anita Roddick set up The Body Shop, she developed a range of environmentally friendly cosmetics in unsophisticated packaging. This would have been frowned on in a conventional cosmetics company.

### III. LITERATURE REVIEW

Export-Import Bank of India, 2012 studied and documented the current situation of MSMEs and support systems setup for them in India along with select countries of Europe, Asia, Latin America etc. It studies MSMEs in the Indian as well as global context. It explains the evolution of Indian MSME policies over time. During 1948-1990 the objective was to increase employment opportunities and equitable distribution of national income, during 1991-1999 it was to make the MSMEs more competitive in the face of liberalisation and 1999 onwards the objective has been development and promotion of the sector by addressing challenges relating to credit, infrastructure, marketing and technology. It also stated the current challenges faced by the Indian MSMEs and the strategies for their Development based on past experiences of India and other countries such as China, Japan, Malaysia, Thailand, Mexico, Philippines etc . It suggests that Indian MSMEs must have access to alternative sources of capital like angel funds/risk capital etc, the existing legislatures need to be toned up to handle insolvencies and bankruptcies; the ceiling limits need to be redefined to encourage MSMEs to move up the value chain; the policies need a cluster development approach to increase the level of competitiveness; emulating Japan, Korea and Malaysia technological innovation and R&D must be encouraged among MSMEs and entrepreneurship must be encouraged via skill formation and learning mechanisms.

- Grimsholm & Poblete, 2010 conducted a detailed qualitative study of external and internal factors hampering the growth of Small and Medium Enterprises in Thailand. It reproduced quite generalized results applicable to most of the south Asian countries producing low cost, low value added and labour intensive products. Significant factors hampering growth according to the study are lack of access to finance, competition, barriers to trade, management competence, lack of skilled

labor, low investment in R&D and new technology.

- Ministry of Micro, Small and Medium enterprises, 2013 published the Inter Ministerial Committee for Accelerating Manufacturing in MSMEs' paper reporting slow down in the overall growth of MSMEs in recent years, especially post 2009. It highlighted the significance of MSMEs, changing trends in employment growth in this sector and addressed concerns regarding establishing an enterprise and running it successfully. It also recommended support systems for encouraging start ups, doing and expanding business and ease of closure and exit and also drew light on the need to do so. It also suggested changes in labour laws and gives product specific recommendation

### III. RESEARCH METHODOLOGY

This study majorly focused on micro, small and medium enterprises located in industrial areas and prominent markets of New Delhi. Various manufacturers, service providers, start-ups from the food industry, IT industry and textile manufacturing industry were interviewed as a part of the study. The research began by gathering background information i.e. history, present condition and significance of micro, small and medium enterprises and basic study of the sector which was followed by deciding the research question and hypothesis. Two types of research methods most commonly used for data collection are as follows: quantitative and qualitative methods (Ghauri et al., 1995). Quantitative analysis uses data which is then converted into numbers, graphs; tables and statistics to come to a conclusion whereas qualitative methods often refer to case studies where the collection of information can be received from a few studying objects (Bryman and Bell, 2007). Qualitative methods emphasize on understanding, interpretation, observations in natural settings and closeness to data with a sort of insider view (Ghauri et al., 1995). This paper uses the qualitative approach as it is more suitable for a research like this in which the firms' internal behavior, peoples' perceptions,

beliefs, ideas and opinions need to be taken into account which are difficult to quantify (Grimsholm & Poblete, 2010)

#### **IV. PROBLEMS**

Various problems were identified in the previous section. This section will highlight the major problems faced by MSMEs and the factors affecting their growth. Finance All the companies require capital to meet their fixed as well as variable costs but most of the MSME owners lack required capital to establish and operate the firm, thus they have to resort to borrowing. 'The reliance on debt for finance depends greatly on the size of the firm. Smaller the entity greater is the reliance on debt as a primary source of finance. Micro enterprises depend on debt as a primary source for both early and growth stage while small and services primarily transact in cash and tend to keep minimal records. Manufacturing enterprises and the ones with order-driven services tend to need more finance because of longer working capital cycle and higher capital expenditure'(International Finance Corporation)

#### **V. MARKETING**

Being a small entity and having a perpetual shortage of finance, the MSMEs are unable to market their product as well as the large enterprises which works to their disadvantage. They do not focus on packaging methods or sales and advertising. Most of the firms undergo losses during first five to six years just due to lack of consumer demand. But eventually they make a place in the market based primarily on the quality of their product and contacts that they gather during business transactions.

#### **VI. GOVERNMENT REGULATIONS**

To enter the market or get registered as a Private Limited company one has to get various licenses such as Service Tax Registration, PAN Card, TAN (Tax Collection & Deduction Account Number), VAT/CST Registration, Shops & Establishment License, Central Excise License, Importer Exporter Code, Professional Tax, Employee Provident Fund Registration and ESI (Employee State Insurance) Registration, and construction permits from the Municipal Corporation, to name a few – the sewerage, fire, electricity, environmental departments. For the food industry there are other licenses such as Food Safety and Security License,

Health Care License and Police License. Not only the application process for these licenses is cumbersome but the information required to apply for them is difficult to come across too which is the reason why most of the people hire Chartered accountants and Lawyers to get registered

#### **VII. CONCLUSION**

The study concludes that Finance is a major obstacle in the growth of micro, small and medium enterprises. The lower and middle class is capable of driving itself out of poverty; it is ambitious and active in taking up new ventures and starting businesses but most ideas are being nipped in the bud because of lack of capital. Not only does it discourage aspiring entrepreneurs but also plays a huge role in holding back the growth of existing firms. In fact many other factors slowing down growth arise due to lack of finance.

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