

# Challenges Faced by Micro, Small and Medium Enterprises in Chennai City : Starting or Growing a Business

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## Abstract

The Government of India has been taking various economic steps to raise the pace of economic growth of our country. Demonetization and Goods and Services Tax are also considered as part of such economic reforms done by the government. The growing changes in the Indian economy and also the business environment have significant impact on various sectors operating in our country. MSMEs are no exception to these changes. While some experts see these economic reforms as an opportunity for MSMEs to grow, others have unfavorable opinions. Government of India is also taking various steps and introducing various schemes to make India as the place of ease of doing business. With these changing economic conditions, this paper lists out the various challenges faced by MSMEs specifically while starting and growing their business in Chennai city.

**Keywords:** Challenges, Chennai, MSME

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Micro, small, and medium scale enterprises play a significant role in development of the economy. They contribute to the gross domestic product and also create employment opportunities in the nation. Many research studies conducted worldwide also show that there is a positive relationship between SME and economic changes.

In India, an enterprise is classified as MSME on the basis of the following criteria (Table 1):

**Table 1. Classification of MSMEs**

Classification	Manufacturing enterprises	Service Enterprises
Micro	Upto ₹ 25 lakhs	Upto ₹ 10 lakhs
Small	Above ₹ 25 lakhs and up to ₹ 5 crores	Above ₹ 10 lakhs and up to ₹ 2 crores
Medium	Above ₹ 5 crores and up to ₹ 10 crores	Above ₹ 2 crores and up to ₹ 5 crores

With around 36.1 million units throughout the geographical expanse of the country, MSMEs contribute to around 6.11% of the manufacturing GDP, and 24.63% of the GDP from service activities, as well as 33.4% of India's manufacturing output. They have been able to provide employment to around 120 million persons and contribute to around 45% of the overall exports from India. The sector has consistently maintained a growth rate of over 10%. About 20% of the MSMEs are based out of rural areas, which indicates the deployment of significant rural workforce in the MSME sector and is an exhibit of the importance of these enterprises in promoting sustainable and inclusive development as well as generating large scale employment, especially in rural areas.

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## Literature Review

Shiralashetti (2014) studied prospects and problems of MSMEs in India. This paper covers growth, performance, and contribution of MSMEs to GDP and also mentions the problems faced by MSMEs located in Dharwad district of the state of Karnataka.

Lahiri (2012) made an attempt to critically analyze the definition aspect of MSMEs and to explore the opportunities MSMEs have, and the constraints faced by MSMEs in the era of globalization by 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 was not encouraging during the liberalization period.

Padmasani and Karthika (2013) studied the problems and prospects of micro, small, and medium scale enterprises in textile exports with special reference to Tirupur and Coimbatore districts. This paper examines the problems of MSMEs in the era of global economy and also identifies the factors affecting MSMEs. A study was conducted on the socio-economic conditions of MSMEs. The survey revealed that problems can be overcome if MSMEs get involved in standardization of business processes, and can also adopt latest technology to improve productivity. It was said that banks can support the industry by providing credit facilities at low interest rate, and government and institutions related to small and medium scale industries should take effective measures to improve the export performance of MSMEs in order to develop the economy. The study covered the districts of Tirupur and Coimbatore.

Nishanth and Zakkariya (2014) said that there are problems in accessing finance from banks and financial institutions, and they also observed that this problem may differ from region to region between sectors, or between individual enterprises within a sector. Various barriers are faced by these units in raising finance and they try to identify various sources of finance other than banks. The study was restricted to Kozhikode district in Kerala.

Garg (2014) made an attempt to highlight the growth of this sector and analyzed various problems and challenges faced by the MSME sector in India in general.

Suneetha and Sankaraiah (2014) conducted a survey of 156 enterprises to study their problems. It was found that 103 enterprises were facing financial problems and among them 62.8% were from micro enterprises. Moreover, 23% found meager assistance from government agencies. In the study, the divisions of Kadapa, Jammulamadugu, and Rajampet were covered.

## Statement of the Problem

Micro, small, and medium enterprises played an important role in the growth of the Indian economy. Despite its contribution to the Indian economy, the sector has been facing various challenges due to changing economic conditions and business environment. In these changing conditions, MSMEs are required to be educated about new technologies and new business practices so that they are ready to face global competition and can upgrade themselves accordingly. This cannot be possible without support from government departments, banks, financial institutions, and corporates. Therefore, in order to obtain their support, it is necessary to identify the major challenges faced by MSMEs through research study.

## Objectives of the Study

The objectives of this study were as follows:

- ❖ To identify the major challenges faced by MSMEs in starting and growing small businesses.
- ❖ To offer suggestions on how to overcome these challenges.

## Research Methodology

All necessary data were collected from primary and secondary sources for the purpose of this study. The period of research was June 2017 to August 2017.

### (1) Primary Sources

Primary data for this study were collected from entrepreneurs through the questionnaire in Chennai city.

### (2) Secondary Sources

The secondary data for this study were collected from websites, journals, and magazines.

### (3) Analysis Method

SPSS was used to analyze data. Factor analysis was used to identify the major challenges faced by MSMEs. Factor analysis is a process in which values of observed data are expressed as functions of number of possible causes in order to find which are the most important.

## Data Analysis and Interpretation

Tables 2 to 6 represent various statistical results of factor analysis. It is clear from these tables that the various challenges faced by MSMEs in starting and growing small businesses are availability of technology, cost of technology, availability of skilled manpower, availability of infrastructure facilities, marketing mix problems, cost disadvantages independent of size, access to global market, tax policy, competition, information gaps, industrial rivalry, and bargaining power of buyers, accessibility to cost effective distribution channels, market forces like demand, supply, and licensing formalities.

Availability of technology, infrastructure facilities, access to global markets, licensing formalities, and competition are the major challenges in starting and growing small businesses by MSMEs. The analysis shows that these factors influence 79.4% of the study. Thus, these four are considered as major challenges faced by MSMEs. Availability of technology is one of the challenges faced by MSMEs. With the rising inflation and various other changes happening in external business environment, MSMEs are required to achieve productive efficiency which can be possible only with the help of technological advancement. However, the availability of technology is a barrier for MSMEs in growing

**Table 2. Descriptive Statistics**

	Mean	Std. Deviation	Analysis N
Availability of technology	2.30	1.022	30
Cost of technology	2.30	0.877	30
Availability of skilled manpower	2.53	1.167	30
Adequate infrastructure facilities	2.73	1.202	30
Marketing mix problems	2.30	0.988	30
Cost disadvantages independent of size	2.27	0.980	30
Access to global markets	2.30	1.088	30
Tax policy	2.27	1.258	30
Competition	2.60	1.133	30
Information gaps	2.20	1.095	30
Industrial rivalry and bargaining power of buyers	2.67	0.884	30
Accessibility to cost effective distribution channel	2.30	1.236	30
Market forces like demand,supply etc.	2.20	0.997	30
Licensing formalities	2.13	1.167	30

Source: Primary Data

**Table 3. KMO and Bartlett's Test**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.619
Bartlett's Test of Sphericity	Approx. Chi-Square	182.809
	Df	91
	Sig.	0.000

Source: Primary Data

**Table 4. Communalities**

	Initial	Extraction
Availability of technology	1.000	0.700
Cost of technology	1.000	0.695
Availability of skilled manpower	1.000	0.820
Adequate infrastructure facilities	1.000	0.802
Marketing mix problems	1.000	0.722
Cost disadvantages independent of size	1.000	0.665
Access to global markets	1.000	0.693
Tax policy	1.000	0.788
Competition	1.000	0.418
Information gaps	1.000	0.625
Industrial rivalry and bargaining power of buyers	1.000	0.710
Accessibility to cost effective distribution channel	1.000	0.709
Market forces like demand, supply etc.	1.000	0.815
Licensing formalities	1.000	0.704

Extraction Method: Principal Component Analysis.

Source: Primary Data

**Table 5. Total Variance Explained**

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.213	30.093	30.093	4.213	30.093	30.093	3.529	25.210	25.210
2	2.456	17.542	47.635	2.456	17.542	47.635	2.819	20.137	45.347
3	1.912	13.659	61.294	1.912	13.659	61.294	1.833	13.091	58.438
4	1.284	9.168	70.462	1.284	9.168	70.462	1.683	12.024	70.462

Extraction Method: Principal Component Analysis.

Source: Primary Data

**Table 6. Rotated Component Matrix**

	Component			
	1	2	3	4
Availability of technology	0.699	0.016	0.218	0.404
Cost of technology	0.441	0.602	-0.296	0.223
Availability of skilled manpower	0.318	0.825	-0.182	-0.069
Adequate infrastructure facilities	0.697	0.236	0.252	-0.444
Marketing mix problems	-0.061	0.801	0.233	0.149
Cost disadvantages independent of size	0.231	0.352	0.691	0.104
Access to global markets	0.796	0.050	0.177	0.161
Tax policy	-0.235	0.844	0.123	0.074
Competition	0.619	-0.117	0.076	0.121
Information gaps	0.321	0.061	0.289	0.659
Industrial rivalry and bargaining power of buyers	-0.026	0.158	0.001	0.827
Accessibility to cost effective distribution channel	0.254	-0.179	0.779	0.071
Market forces like demand, supply etc.	-0.688	0.117	0.514	0.253
Licensing formalities	0.700	0.389	0.248	-0.034

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 6 iterations.

Source: Primary Data

their business. Infrastructural facilities for smooth business operations is the other barrier. This is a traditional barrier for any kind of business. Access to global markets and competition has to be discussed together. Due to globalization, competition has shifted from national to international level. A businessman is therefore, forced to act and frame his strategies at global level by doing business at a local level. Because of the increasing global competition, many small and less competitive MSMEs are not able to sustain competition, and become disabled due to lack of access to global market and some have left the market. Complicating licensing procedures and licensing fees are other challenges faced by MSMEs.

The second set of challenges faced by MSMEs are availability of skilled manpower, marketing mix problems, cost of technology, and tax policies. These challenges influence 79.8% of the business of MSMEs. It is a known fact that there is mismatch between demand and supply of skilled human resources in our country. Thus, even the available skilled manpower is attracted towards large corporates because of higher compensation and benefits. As a result, MSMEs are not able to access skilled manpower. Marketing mix problems are the new challenge faced by MSMEs. The marketing program which involves proper designing of marketing mix namely, product, price, place, and promotion is required to build strong customer relationship and ensure value in return from customers. Because of various financial and various manpower barriers, MSMEs are not able to design their marketing mix more effectively. Very few entrepreneurs are successful in implementing the right marketing mix. Cost of technology is huge and thus, MSMEs are not capable of affording it. Tax policy is also a traditional barrier affecting any industry concerned. With GST, this is considered to be a barrier as there is still absence of clarity and understanding among business people on mechanism of GST.

Cost disadvantages independent of size, accessibility to cost effective distribution channel, and market forces are the third sets of challenges faced by MSMEs. There are various cost disadvantages to MSMEs independent of whether they are micro, small, or medium size. The cost of production is increasing, which in some cases is not affordable for MSMEs. Accessibility to cost effective distribution channel is another barrier. Established MSMEs are able to access

cost effective channel members but new comers have to bear huge cost and need to obtain trustworthiness from channel members. This is a challenge for starting a business. Market forces like demand and supply determines the existence of MSMEs. When there is no demand, MSMEs are left with two options, either to leave the market or to generate new demand through differentiation. These challenges influence 70% of the business of MSMEs.

Information gaps, industrial rivalry, and bargaining power of buyers are the final sets of challenges faced by MSMEs. Many people lack knowledge about how to go about starting a new business, financing facilities etc. Industrial rivalry and bargaining power of buyers are forces shaping competition identified by Porter. The nature of competition within the industry is also a barrier to start business as it will not help in gaining high market share.

## **Findings**

The findings of this study are as follows:

- (1) The major barriers faced by MSMEs are accessibility and availability of technology, licensing formalities problems, access to global markets, competition, and accessibility to skilled power.
- (2) Some of the traditional barriers like accessibility to adequate and timely finance, limited capital, and limited managerial ability are no longer major factors affecting the growth of small business.
- (3) The study bring some new barriers faced by MSMEs like cost disadvantages independent of size, marketing mix problems, accessibility to cost effective distribution channel, and information gaps.

## **Limitations of the Study**

The limitations of this study are as follows:

- ❖ The study used the data collected from both primary and secondary sources. Therefore, limitations of these sources apply to this study.
- ❖ The study deals with the data made available and therefore, it may not judge the entire scenario.
- ❖ The study is also affected by time constraints.
- ❖ The study is mainly focused on MSMEs in Chennai city and therefore, results can vary when the same study is conducted in any other geographical location.

## **Suggestions**

Some of the barriers like information gaps, market forces like demand and supply can be overcome. Information gaps can be overcome by creating awareness among youngsters about entrepreneurship. Market forces barriers can be resolved by using appropriate forecast for the future. Existing manpower can be given training on various managerial aspects to improve labour efficiency. If the barriers discussed are overcome, there is more scope for growth of MSMEs in India.

## **Conclusion**

To conclude, the study identifies various challenges faced by MSMEs in starting and growing their business. It brings to light some of the new barriers like marketing mix problems, cost disadvantages independent of size, and several other factors indicating novelty or originality of the paper. The identified challenges need to be overcome to smoothen the business of MSMEs as they play a vital role in the economic growth of the country.

## **Scope for Further Research**

The scope for further research is given as follows:

- (1) This study can be replicated by focusing on the challenges faced by MSMEs in different cities in Tamil Nadu excluding Chennai.

(2) The study can also be replicated by identifying the impact of demonetization and GST on MSMEs in Chennai City.

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