

A Study of the Challenges of the Indian MSME Sector

Pooja Khatri

Assistant professor, Swami Shraddhanand college, University of Delhi

Corresponding Author: Pooja Khatri

Abstract: *The Micro, Small and Medium Enterprises (MSMEs) sector is a major contributor to Indian economic development. It contributes to industrial production, GDP growth, export earnings, employment generation, regional development, economic diversification and social stability. This exploratory research paper aims to present the role of MSME sector in the Indian economy. The vibrant sector also faces a number of challenges despite various initiatives taken by the concerned ministries. The present study aims to explore various problems and challenges experienced by the MSME sector. It reveals various aspects related to problems of finance, marketing, technology, human resource, operations and export potential based on secondary data. Difficulty to acquire timely funds for working capital needs, lack of consultancy support, complicated documentation, lack of the latest technological skills, need-based research programs, low ICT literacy, lack of motivation and presence of high employee turnover, inefficient logistics, low-quality products, poor bargaining power, informational gap, infrastructural gaps, complicated laws, lack of foreign quality certifications, regularity policy uncertainty, etc. are few of such problems. It also presents some policy-based suggestions to resolve such issues which hinders the growth potential of MSME units.*

Keywords: *MSME, finance, marketing, economy, growth, employment, marketing, export.*

Date of Submission: 04-02-2019

Date of acceptance: 22-02-2019

I. Introduction

MSME sector or the Micro, Small and Medium Enterprises sector is identified as a low-investment sector with high operational flexibility and location mobility. The data as per the 73rd round of National Sample Survey Organization as conducted in 2015-16 shows that there are around 633.88 lakh unincorporated non-agriculture MSMEs in India. 99% of the total enterprises are from the micro sector. 31% of them are involved in the manufacturing activities, 36% in trade activities and 33% in other services. The MSMED (Micro, Small and Medium enterprises development) Act 2006 classifies manufacturing enterprises as micro, small and medium based on the level of investments in plant and machinery. Service enterprises are classified based on their investments in equipment. The sector contributed around 29% to GDP in 2015-16 and 45% to India's total manufacturing output. Its contribution to exports is nearly 40% in value terms. It contributes majorly to the exports of products like sports goods, textiles, handicrafts, leather goods, etc. Despite its high contribution to employment generation, enhancement of entrepreneurial skills, domestic production, innovation, GDP growth, balanced regional development, export earnings, economic diversification, social stability, and private sector growth; it suffers from multiple problems. Availability of adequate and timely finance without any complexities is the biggest challenge. Lack of the latest technology and its timely upgradation is another problem. The human resource factor also suffers from a number of limitations because of a lack of need-based training and development facilities for the managerial and technical personnel. The liability of being small makes it tough for the MSME units to compete with cheap and quality products of the larger enterprises. There are various barriers to smooth operations of MSME units like poor risk management, insufficient viability studies, infrastructural blockages, and complex labor laws. All these challenges and many more make the sector less competitive in the export markets. The current paper attempts to study the challenges related to financing, technology, HR, operations and exports in detail. It is believed that the MSME sector can contribute highly to employment generation in less developing areas because of the dominance of labor-intensive industries and minimum capital investments. But the sector is infected with many types of problems which are needed to be resolved by providing timely and affordable solutions so that MSME sector can enhance its role further as the true engine of growth for the Indian economy. The paper also provides a few possible strategies to provide a more conducive environment to MSMEs.

1.1 Objectives

- To review the role of the MSME sector in the Indian economy.
- To highlight the issues and challenges faced by Indian MSMEs.
- To suggest possible measures to provide a more supportive and conducive environment to the MSMEs.

1.2 Organization of paper

The present paper is structured in a number of sections. Section 1 introduces the concept of Micro, Small and Medium Enterprises (MSMEs), their prospects in the Indian economy and objectives of the study. Section 2 provides a review of current literature over the MSME sector and its problems. Section 3 describes the scope and methodology of the study. Section 4 presents the subject matter of the study. Section 5 provides a conclusion by summarizing the study. Section 6 discusses the limitations of the current study and outlook for further research.

II. Review Of Literature

- **Ashok Kumar Panigrahi (2012)** highlights that proper training and development for enhancing the manager's knowledge and awareness about risk management can help in systematic handling of risks in MSMEs. MSMEs provide important contributions to India's manufacturing output, employment, and exports. MSMEs face problems in the production and marketing of their products. Lack of proper infrastructural facilities, difficult access to credit, stiff competitions, recruitment of skilled managerial and technical personnel are few of the challenges. Robust risk management is much more needed in case of SMEs because of their small size and lack of professional personnel. Some risks specific to SME sectors are related to their constitution, fund mobilization, inadequate margins, low collection in account receivables, lack of technological advancement, high employee turnover, microfinance, collateral security, bank lending, etc.
- **Arvind Kumar Singh, et. al. (2014)** studies the role of entrepreneurs in the development of SME business given the current challenges faced by the sector. After mentioning some of the key highlights of the MSME sector, the study discusses the major initiatives as undertaken by the Indian government to revitalize the sector. It highlights that small business act like the nursery of entrepreneurial and managerial talent. The problems faced by such entrepreneurs of the SME sector and assistance provided by the government are also discussed. The government can help this sector by providing R&D support, access to foreign technologies, innovative promotions, assistance from large firms, e-governance, and e-procurement.
- **M. Chandraiah, et. al. (2014)** establishes that the growth of modern MSMEs is a rewarding feature of Indian economic development. MSMEs face a number of challenges in the field of credit, raw material, designing, packaging, storage, infrastructure, manpower, etc. but still it has been able to survive economic downturn and recession because of its innovation, adaptability, and resilience. Government policies prior to 1991, new small enterprise policy 1991 and comprehensive policy package 2000 have been discussed along with the recent challenges.
- **W.G Bonga (2014)** analyses the challenges faced by SMEs in the internationalization of their products and suggests some strategies which can be employed at both individual and national levels. It also suggests a simplified regulatory framework, good governance, accessible finance, proper infrastructure, and availability of foreign market information to help SMEs in the promotion of their exports. Some of the major challenges in the way of increased exportation are lack of adequate finance, inadequate market research and analysis, inability to understand competitive conditions, lack of expertise to enter a foreign market, unfamiliar export procedures, etc. government assistance, initial focus on few selected markets, realistic commitments, understanding employment policies and reduction of regulatory burden are few of the suggestions.
- **AshuKatyal, et. al. (2015)** focus on the role of HR operations and systems in MSME. HR activities are often neglected by many MSMEs but it is always in the interest of any company to positively focus on HR development and management. Five human resource management areas which must be closely examined are job analysis, job security, training, and performance appraisal. MSMEs lack resources to advertise, compensate highly and train as compared to large organizations. The study provides innovative strategies to deal with various HR challenges in the area of recruitment, retention, motivation, job security, empowerment, employee engagement, workforce diversity, etc.
- **Bilas S. Kale (2015)** conducts a descriptive study of the MSMEs operating in Maharashtra to establish that MSMEs help to fight unemployment, poverty and achieve socio-economic growth in the state. MSMEs lead to inclusive and balanced growth of the economy by creating demand for goods and services. This sector reduces social imbalances and leads to foster sustainable development.
- **Dr. Gisha P. Mathai (2015)** conducts an exploratory study to analyze the major challenges of the Indian MSME sector and also provide valuable suggestions for improvement. The author claims that the SME sector is like the spine of the nation providing the second largest employment opportunities. Some of the major problems are related to lack of bank credit, competition from MNCs, poor infrastructure, unavailability of raw materials, lack of advanced technologies, lack of marketing channels, lack of skill development program and complex labor laws. The author suggests that mutual supply of technologies, the constitution of a panel of consultants, determination of technological needs, awareness programs, sufficient availability of credit and relaxation in labor laws can lead to growth and development of Indian MSMEs.

- **Saud Ilahi (2015)** conducts a survey to highlight the problems of MSMEs in Delhi and also gives suggestions to provide them with a more conducive environment. A survey of 100 entrepreneurs reveals that the lengthy procedure of getting finance is the major problem. Majority of MSMEs refrain from incurring large marketing expenses. Majority of the participants did not attend any EDPs. Other major problems relate to the field of technology, infrastructure, marketing, labor, design, standardization, etc. some of the suggestions provided to encourage EDP participation, easing loan procedures, government assistance, technology initiatives and a curb on corruption practices.
- **Meeravali Shaik, et. al. (2017)** establishes that although MSME sector has shown a positive contribution to employment and fixed assets growth in recent years but it still faces a number of challenges such as lack of timely credit, high cost of credit, difficulty in procurement of raw material, problems in storage and designing, inadequate infrastructure, low technology levels, lack of skilled manpower, etc. it suggests the government to adopt integrated policy with efficient governance for the MSME to help the sector increase its productivity and contribution to economic growth.
- **Suhail Mohammad Ghouse (2017)** conducts primary research over 210 exporters of the handicraft industry establishes in and near Noida to understand the perceived challenges regarding the internationalization of their MSMEs. Unstructured questionnaires are used to explore their export markets, sales methods chosen, competition status and problems associated with export. It establishes that the UK and France are the largest export markets, personal contacts and direct export sales are the most common sales method. Lack of infrastructure is found to be the topmost concern while exporting in international markets. The biggest challenges are related to export subsidies, market awareness and export promotion. The study recommends that export-related subsidies are most crucial to MSME exporters because of the tough price competition in the international market.
- **Syamala Devi Bhoghanadam, et. al. (2017)** analyze the existing literature on various challenges faced by the Indian MSME sector and divides them into internal and external factors. The study also provides a literature matrix in which all the challenges are bifurcated into external issues, environmental issues, socio-cultural issues, marketing issues, financial issues, HR development issues, and infrastructure issues.
- **Sonia Mukherjee (2018)** analyzes the Indian coir industry with respect to its export trend for five years. The major reason for its deteriorating export competitiveness found out to be the absence of appropriate technology. She concludes that higher investment in advanced technology and R&D, higher usage of the digital platform, transfer of technology, higher investment in HR, improved access to finance and liberal business regulations can improve its global competitiveness. The study also includes a detailed analysis of the several measures taken by the Indian government for the technological development of Indian MSMEs.

III. Scope And Methodology

The study looks into the role of the MSME sector in the Indian economy and various problems faced by the Indian MSMEs. It highlights the present challenges related to various aspects of finance, exports, marketing, designing, etc. Possible suggestions for the promotion of conducive environment are also deliberated upon. This study is primarily based on secondary data. The relevant data is collected from a number of sources like some industry journals, annual report 2017-18 of 'Ministry of Micro, Small and Medium Enterprises', ASSOCHAM report, official website of MSME, Indian economic survey, publications of RBI, Handbook of Statistics on Indian Economy, online articles and newspaper articles have been used for analysis.

IV. Analysis

The Micro, Small and Medium Enterprises (MSME) sector is definitely a highly vibrant and dynamic sector of the economy of India. This is one such sector which is characterized by low investment requirements, operational flexibility and location mobility. The vibrant sector is also a major contributor to domestic production, entrepreneurial skills, innovation, GDP growth and balanced regional development, and export earnings. It contributes to economic diversification, social stability, private sector growth and encourages competitiveness. It is believed that the MSME sector can contribute highly to employment generation in less developing areas because of the dominance of labor-intensive industries and minimum capital investments. MSMEs also discourage monopolistic practices of production and marketing. But the sector is plagued with many types of challenges. It was in 2007 when the ministry of small-scale industries and the ministry of Agro and rural industries were merged to form the new ministry of Micro, Small and Medium Enterprises (M/O MSME). M/O MSME performs the functions of designing, promoting, facilitating, monitoring and implementing of different policies, programs or schemes to provide a more conducive environment to the MSMEs. Ministry of MSME plays the role of assisting state governments to initiate efforts to enhance entrepreneurship, employment, livelihood, and competitiveness. The Micro, Small and Medium enterprises development (MSMED) Act was enacted in 2006 which aims to facilitate and enhance the competitiveness of the sector by introducing some key provisions addressing the issues of coverage and investment ceiling of the

sector. It also classifies enterprises into manufacturing and services enterprises. The Act also addresses many policies issues affecting the sector. A standard definition of SME does not exist in the international scene but generally, they are defined in terms of a number of persons employed. SMEs are defined differently across countries. MSMED Act 2006 defines MSMEs on the basis of their investments made in plant & machinery and equipment by different kind of enterprises.

Manufacturing enterprises which are engaged in production or manufacturing of goods belonging to any industry as specified in the first schedule of Industrial (Development and Regulation) Act 1951 are defined on the basis of investments made by them in the plant & machinery.

Classification	Investment Size
Micro	Less than or equal to Rs 25 lac
Small	More than Rs 25 lac but less than Rs 5 crore
Medium	More than Rs 5 crore but less than Rs 10 crore

Service enterprises which are engaged in providing or rendering of any services are defined on the basis of their investments in equipment.

Classification	Investment Size
Micro	Less than Rs 10 lac
Small	More than Rs 10 lac but less than Rs 2 crore
Medium	More than Rs 2 crore but less than Rs 5 crore

4.1 Role of the MSME sector in the Indian economy

As per the data available with the Central Statistics Office (CSO), the MSME sector contributes around 32% to the Gross Value Added and 29% to GDP in the year 2015-16. It has remained almost the same since 2011. MSME sector manufactures more than 8000 products ranging from simple and traditional consumer goods to sophisticated finished products. Some of the industries under the MSME category are related to food products, paper & paper products, cotton textiles, jute & jute based, plastic & plastic products, basic metal industries, IT & IT enabled services, electrical & electronic goods, chemicals & pharmaceuticals, etc. Almost 90% of total manufacturing industries rely on SMEs for semi-finished, finished and supplementary products. It shows how they are valuable for the overall industrial growth of the nation and acts as the backbone of the Indian manufacturing sector. It is also to be noted that for a decade, the MSME sector has maintained a higher growth rate than the entire industrial sector. Also, the survey shows that the MSME sector has created around 11.10 crore jobs. MSME sector employs the second largest workforce just after the agriculture sector. The annual compound employment growth rate of MSMEs has been 3.63% as per the annual report of M/O MSME 2017-18. Micro enterprises provide around 97% of total employment in the MSME sector. The sector can also provide employment to people with a lower degree of skills or ordinary skills. It is believed to lead to job creation at all levels of income stratum and assure more equitable distribution of wealth. As per the 4th All India Census of MSME, 2006, MSMEs contributes to around 45% to India's manufacturing output and 40% to India's exports in value terms. It helps in reducing regional imbalances. The share of MSME exports in total exports of items like textiles, leather goods, processed food, gems & jewelry, carpets, handicrafts, readymade garments, woolen garments, and knitwear have been improving for many years now. And it has a 100% share in the export of sports goods. About 3 million SMEs contribute to Indian foreign trade. The trend of international demand shows that there is a high potential for items related to areas like food processing, textiles, and electronics for the MSME sector. As per the annual report of the Ministry of MSMEs 2017-18, there are around 633.92 lakhs enterprises registered as MSMEs in India and out of those only 4000 are from the category of large enterprises. Around 51% of total enterprises are from the rural sector. In such a scenario, enactment of MSME friendly laws and policies and establishment of specialized institutions for promotion and development of MSMEs can really prove them to become the engines of economic growth in India.

4.2 Challenges of the MSME sector:

Despite being low capital-intensive and one of the most vibrant and dynamic sectors of the Indian economy, the MSME sector faces a number of challenges. These challenges arrest the growth potential and smooth functioning of the MSME enterprises. We can broadly group these challenges in different categories. These are related to finance, technology, human resource, marketing, and other operational challenges. All these challenges also hinder the scope for internationalization of this vibrant sector.



Challenges of the MSME sector

4.2.1 Finance related challenges:

- ✦ The MSME units find it difficult to access funds for their operational needs as well as expansion needs. Government has taken various steps to make funds reach these units like the provisions of priority sector lending, specialized bank branches to lend to MSMEs, debt restructuring, credit guarantee trust, margin money assistance scheme etc. but the problem is that there is widespread unawareness on financial and government schemes and thus the illiterate and semi-literate entrepreneurs find themselves hesitant to make use of government agencies for their financial needs.
- ✦ There is a lack of financial literacy and consulting support for these small entrepreneurs. The MSME sector suffers from a lack of sound advice for finance because of a lack of financial knowledge.
- ✦ The formal sector of lending funds to the MSME sector is also plagued with many complexities. It is not an easy process to make use of formal lending. There is a prolonged and complex process involved in banks because of many formalities and documentation requirements. This is a must for the MSMEs to prove their worthiness. Many MSME entrepreneurs lack the knowledge and understanding of such documentation. Despite the actions of the ministry of finance, the credit rating of MSMEs is a difficult procedure in itself.
- ✦ The small units find it difficult to provide collateral security for accessing the bank funds. It is also evident that the institutional lenders fail to understand the unique financial needs of the MSMEs because their needs and functioning are much different than from the large lenders of the banks.
- ✦ In the formal banking sector, MSMEs also find it difficult to acquire microfinance, working capital finance and trade finance because of the perceived greater risks these smaller units have. So generally, these units have to survive with limited funds.
- ✦ Once MSME units manage to prove their worthiness by going through the complex procedures, the sanction process of the loans is a cumbersome process and it is also accompanied by a delay in disbursement of funds.
- ✦ The informal sector of credit may provide quick disbursement of the much-needed funds but the rate of interest is really high.
- ✦ MSME sector has limited access to equity capital. The establishment of BSE SME Exchange and NSE Emerge in 2012 have spurred the participation of SMEs in the capital market. The formalities are much liberal for SMEs as compared to the companies listed on mainboard but still, there are few units which get listed on this new form of exchange.

4.2.2 Technology related challenges:

- ✦ Lack of the latest technological skills and obsolescent machinery, as well as equipment, have contributed to increased operating costs for the Indian MSMEs. It has led to a negative impact on the manufacturing competitiveness of the sector. There is a dire need for technological upgradation.

- ✦ Need-based research programs should be promoted for the well being of the sector. The traditional artisans are not empowered to enough to compete with the high technological advancements of the larger firms.
- ✦ MSMEs are not sufficiently familiar with the concept of lean manufacturing.
- ✦ There is a lack of skilled manpower and thus the enrolment in business incubators need to be enhanced.
- ✦ Entrepreneurs, as well as other employees of MSME units, are not well equipped with the Information and communication technology (ICT) skills which can completely transform the way in which businesses are operated.

4.2.3 Human Resource related challenges:

- ✦ MSMEs are largely unable to acquire HR with high managerial capabilities because such employees get themselves connected to companies providing large attractive packages which are not possible for many SMEs. MSMEs suffer from the problem of inadequate and untrained personnel needed for effective internationalization. There is a shortage of sector-specific trained employees at all levels.
- ✦ This vibrant sector also goes through informal recruiting. Managing HR processes like the activities of selection, training, and compensation are also not given a very high priority.
- ✦ The selected employees do not get enough opportunities for the training and development of managerial skills. One of the reasons is the lack of funds. Thus, such HR lacks the latest technical know-how related to areas of production, finance, accounting, and marketing. Such employees may also be illiterate or ignorant of any advancement in various operational areas.
- ✦ It is difficult for MSMEs with limited funds and skills to motivate any skilled managerial and technical personnel. There is generally a lack of any motivational packages for the skilled HR if any.
- ✦ Lack of highly skilled personnel leads to faulty planning, execution, and appraisal of the performances of the MSME units.
- ✦ One of the biggest challenges is related to the complex labor laws which are complex and practically very difficult to comply with by the small units.

4.2.4 Marketing related challenges:

- ✦ The government has introduced special schemes for assisting MSMEs in the marketing of their goods and services like quality upgradation, an introduction of common facilities, running of entrepreneurship development and consultancy services, etc. But still, marketing has not yet developed as an important profession in the MSME sector despite several efforts of the ministry of MSMEs.
- ✦ The market scenario is highly turbulent and uncertain because of cut-throat competition from cheap imported finished goods. The tough competition has forced many MSMEs to shut down the operations.
- ✦ MSMEs also suffer from the problem of inefficient logistics and limited capacity to develop channels of distribution in foreign markets.
- ✦ The sector has limited capacity to execute highly effective marketing campaigns. It suffers from poor sales promotional skills and limited capacity to advertise for the products in foreign markets.
- ✦ MSME sector lacks in the areas of acquiring reliable customer related information, information related to target market requirements, warehousing facilities, ISO certification, IP related issues, and organized marketing channels. Their smaller size makes it difficult for them to employ high-quality product designing facilities and design improvisation facilities. It is also difficult for them to adopt the latest quality management standards and quality management tools.
- ✦ MSME units find it very difficult to internationalize their products because they lack needful expertise to enter into foreign markets. It is difficult to get reliable foreign agents to contact potential foreign buyers. It is also difficult to get foreign quality certifications. Informational deficiency of demanding foreign markets also makes it difficult to customize products for foreign needs.
- ✦ MSME units also find themselves in an unfavorable position to bargain powerfully with potential buyers.
- ✦ There is a lack of marketing research because MSMEs are unable to engage highly skilled professional agencies for marketing areas due to a lack of funds.

4.2.5 Operations related challenges:

- ✦ MSME entrepreneurs have to go through a number of socio-cultural issues related to family support and caste-based differences in the initial stages. This also leads to the problem of high employee turnover. There is a lack of IT literacy and requisite skills at both the managerial and technical levels. The inflexible labor laws do not provide enough clarity and their compliance involves complicated procedures.
- ✦ There are inadequate provisions for the startups and the legal system is not stable yet for the constitution and operations of smaller industrial units. MSMEs goes through the problems of lack of proper research and development studies, testing facilities and project viability studies which all lead to poor project planning. This SME sector goes through poor risk management, frequent inspections by multiple government agencies, gender, and sectoral disparity.
- ✦ MSME sector is the victim of supply chain inefficiencies. Procurement of raw materials is one of the most difficult tasks of this sector because of their dependence on middlemen as they themselves are smaller in

size and have weak financial positions. This makes the entire process costly. Supply of raw materials is also very irregular in many cases and at times they use cheap and inferior materials because of low budgets. There are different challenges in the areas related to storage, designing and packaging of products because of the sub-optimal scale of operations.

- ✦ The sector is the victim of poor infrastructure. There are inadequate facilities for water supply, regular power, transportation, communication, etc. infrastructural problems negatively affect the productivity and profitability of the MSME sector.
 - ✦ The MSME units also go through the problem of low margins in their sales, low collection of sales receivables, inadequate IT skills, and complex taxation provisions.
 - ✦ Overall, the sector functions under the purview of complex regulatory policies. For example, the provisions related to angel tax, e-commerce, and FDI are not yet clear.
 - ✦ The sector is not able to modernize and rationalize according to the changing needs and preferences of the market because of the limitation of their funds and research capabilities. Liability of being small has made the sector less dynamic to environmental changes. The rehabilitation of sick units is also not an easy path.
- 4.2.6 Export related challenges:
- ✦ MSME sector contributes around 40% to the national exports in terms of value. But still, exposure to foreign markets is very limited. One of the reasons is the psychic distance from different markets. There is a lack of social capital resources like networks, inter-firm relationships, managerial connections, and informal connections which are important to deal with the liability of being smaller than many of their competitors. This makes them face tough competitions in the international scenario.
 - ✦ Despite many efforts by the government, MSME's participation in international events and exhibitions is not satisfactory. Product design and quality are not as per the international standards. Export promotion programs as undertaken by different governmental agencies like DGFT and ITPO are not adequate. Export-related subsidies as enjoyed by Indian units are much lesser than the nations of south-east Asia. Challenges related to the preparation of export documents and hedging of exchange rate risks are also prevalent.
 - ✦ There are challenges related to export value chains because of high tariff on raw materials like metals, chemicals, steel and copper that are being imported by the MSME units.
 - ✦ Many Indian MSMEs lack requisite foreign language skills. There is high uncertainty related to the regulatory policies. There is a fear of a complicated and costly dispute settlement mechanism. And the repayment system is also assumed to be slower and complicated when foreign currencies are involved.

4.3 Possible measures

It is believed that an appropriate and timely impetus to the sector can result in high economic growth. This section of the paper attempts to provide some possible measures which can help to provide a more conducive and supportive environment to the Micro, Small and Medium Enterprises.

- The government should enhance awareness regarding the existing support system and facilities that are provided for the betterment of the MSME sector along with the procedures to avail benefits of such facilities. There should be efforts made to control the corrupt practices prevalent at different levels in the system. The public policymakers should conduct detailed surveys to find out about the technical and financial requirements of MSMEs and then come up with need-based supportive interventions. Even large enterprises with enhanced professional skills should be encouraged to help in the process of development of MSMEs as part of their social responsibility.
- Finance is one of the main problems of the sector despite a number of efforts being taken by the concerned ministry and RBI. There is a lack of widespread awareness about the existing schemes and their benefits so efforts should be made to educate entrepreneurs about these schemes. The availability of credit for the different type of needs should be enhanced further. Various formalities related to loan procedures should be made simpler and more transparent and less time-consuming. Taxation policies should be simplified.
- The limitation of latest and affordable technological solutions daunts the competitiveness of the sector. Proper research should be done at first to identify the possibility of low-cost innovative methods to enhance the quality and competitiveness of production and service rendering. For this, an expert panel should be created for need-based guidance. Best international practices should be adopted and awareness should be enhanced for the same. Even the non-government organizations should come forward for technology upliftment of the sector. Because of the small size of such units, provisions should be made for mutual availability of the latest technologies to all the units. Continuous innovation and the use of solar and renewable energy should be promoted to overcome the lack of regular power supply.
- MSME entrepreneurs should be encouraged to attend EDPs (Entrepreneurship Development Programs) run by the government for the cultivation of right skills. It shall help to improve productivity and managerial ability of HR at all levels. Steps should be taken to control high labor turnover by enhancing employee engagement practices in the form of rewards, feedback forms, recognition, appreciation, and other benefits.

Training and development programs should be directed towards export-related procedures. Labor laws should be relaxed and made more flexible to make compliance less complicated and less costly. Efforts should be made to improve corporate governance practices.

- Various challenges related to the marketing of products in local and international markets can be dealt with by promoting a culture of research and development. E-procurement can be promoted to enhance logistics related processes. MSMEs should be assisted to achieve foreign quality certifications and improve the quality of products. To compete with products of large firms, MSMEs should be helped to increase the value addition of their products by focusing on a few markets initially and then spreading to other markets. Specialized institutions can be established for providing MSMEs with all the support services related to technological issues, designing, raw material supplies, logistics, etc.
- Infrastructure problems should be resolved because they affect the efficiency and profitability of the MSMEs. Availability of regular power, roads, water supply, internet services should be enhanced. Access to such infrastructural facilities should also be improved for all units. Inspection procedures should be simplified because inspection by a number of regulatory levels poses a great threat to the operational efficiency of MSMEs.
- The export potential of MSMEs should be improved by providing training to entrepreneurs regarding export procedures, export documentation, market research, negotiation with buyers, foreign standards, foreign demand patterns, etc. The government should enter into trade preferential agreements with potential export markets to facilitate easy trade. An overall national strategy should be worked upon for export promotion and development of the MSMEs.

V. Conclusion

MSME sector is a dynamic and vibrant sector of the Indian economy. It has experienced consistent growth in terms of a number of new units registered, kind of products manufactured, and employment generation. The sector plays an important role in the economy by contributing to a great extent to national GDP, industrial output, export earnings, regional development, and social stability. MSME units face a number of challenges despite various initiatives taken by the concerned ministries. Difficulty to acquire timely funds for working capital needs, expansion and internationalization needs, lack of consultancy support, prolonged processes, complicated documentation, unavailability of collateral, etc. are few of the finance-related challenges. Lack of the latest technological skills, need-based research programs, lack of skilled manpower, low ICT literacy, etc. are few of the causes of technological backwardness of this sector. Human resources are not effectively trained with new and professional skills related to production, finance, accounting, marketing etc. There is a lack of motivation and presence of high employee turnover. Marketing functions are very challenging for MSMEs because of low competitiveness, inefficient logistics, low-quality products, poor bargaining power, informational gap about foreign markets and changing demand patterns. The overall environment is not very supportive because of factors like infrastructural gaps, complicated laws, and other socio-cultural issues. The sector can grow many folds in terms of exports if challenges like lack of foreign quality certifications, complex dispute settlement mechanisms, regularity policy uncertainty, and insufficient export promotion are resolved. The current study provides a number of suggestions to enhance the growth of the MSME sector. Enhancement of awareness regarding existing support system and facilities, availability of credit for the different type of needs, best international practices, EDPs (Entrepreneurship Development Programs), employee engagement practices, a culture of research and development can help to solve some problems of the very important sector. The government should control existing corrupt practices, come up with need-based supportive interventions, simply taxation policies and labor laws, promote E-procurement, enter into trade preferential agreements with potential export markets, etc. large enterprises should be encouraged to help MSMEs as part of their social responsibility. Low-cost innovative methods should be promoted to improve the quality and competitiveness of production and service rendering. Availability of supportive infrastructure should be made more accessible. The export potential of MSMEs should be improved by providing training to entrepreneurs regarding export procedures, export documentation, market research, negotiation with buyers, foreign standards, foreign demand patterns, etc.

VI. Limitations And Scope For Further Research

The study has data limitations as only secondary data and reports have been used for analyzing the scope and challenges of Indian MSMEs. A primary survey of some MSMEs could have provided a more realistic understanding of the challenges faced by MSMEs.

Further studies can be conducted through a sample survey of MSMEs to collect data regarding a number of aspects like type, scale, export orientations, financing, labor, infrastructure, technology, skill development, gender biases, research & development, future policy frameworks, etc. Econometric analysis can

be applied to that data to understand the problems more precisely. A comparative study regarding the challenges and policy actions of government can also be performed for a number of countries or major cities.

References

- [1]. Annual report 2017-18 of the ministry of small scale and medium enterprises. Retrieved from: www.msme.gov.in
- [2]. Bhoganadam, Syamala Devi and Rao, Nune Srinivasa and Rao, DasarajuSrinivisa (2017). 'A study on issues and challenges faced by SMEs: A Literature review.' Research Journal of SRNMC. Vol. (1). pp 48-57.
- [3]. Bonga, Wellington Garikai (2014). 'challenges faced by SMEs on exportation and possible strategies.' Social Science Research Network. Retrieved from: <https://ssrn.com/abstract=2399878>.
- [4]. Ghouse, Suhail Mohammad (2017). 'Export challenges to MSMEs: A case study of Indian handicraft industry.' International Journal of applied business and economic research. Vol. 15(6). pp 339-349.
- [5]. <https://economictimes.indiatimes.com/small-biz/money/raising-capital-sme-ipo-may-be-a-good-choice-for-small-businesses/articleshow/64231764.cms>
- [6]. Ilahi, Saud (2015). 'Micro, Small and Medium Enterprises (MSMEs) in Delhi: problems and prospects.' International Journal of Research and Development. Vol 4(4). pp 44-48.
- [7]. Katyal, Ashu and Xavior, Betsy (2015). 'A study on MSMEs role in propelling economic development of India and a discussion on current HR issues in MSMEs in India.' International Journal of scientific and research publication. Vol. 5(2). Feb 2015. pp 1-11.
- [8]. Mathai, Gisha P. (2015). 'challenges and issues in micro, small and medium enterprises (MSMEs) in India: A current scenario of economic growth.' Global Journal for Research analysis. Vol. 4(7). pp 162-163.
- [9]. M. Chandraiah and R. Vani (2014). 'The Prospects and problems of MSME sector in India: An analytical study.' International Journal of business and management invention. Vol. 3, Issue 8. pp 27-40.
- [10]. Mukherjee, Sonia (2018). 'Challenges to Indian micro small scale and medium enterprises in the era of globalization.' Mukherjee Journal of Global Entrepreneurship Research. Retrieved from: <https://doi.org/10.1186/s40497-018-0115-5>.
- [11]. Panigrahi, Ashok Kumar (2012). 'Risk Management in Micro, Small and Medium Enterprises (MSMEs) in India: A Critical Appraisal.' Asia Pacific Journal of Marketing and Management Review. Vol. 1(4). Dec. 2012. pp 59-72.
- [12]. Shaik, Meeravali and Kankipati, Ajay Kumar and Ramesh, KV and Babu, G. (2017). 'Performance of MSMEs sector in India.' SSRG International Journal of Economics and Management Studies. Vol. 4(3). pp 11-15.
- [13]. Singh, Arvind Kumar and Singh, Karan Veer (2014). 'MSMEs challenges and opportunities: The key to entrepreneurship development in India.' International Journal of Engineering and Management Sciences. Vol. 5(1). 2014. pp 22-28.
- [14]. S. Kale, Bilas (2015). 'Micro, Small and Medium Enterprises – A case study of Maharashtra.' Indian Journal of Applied Research. Vol. 5(8). pp 124-126.
- [15]. www.msme.gov.in

IOSR Journal of Business and Management (IOSR-JBM) is UGC approved Journal with SI. No. 4481, Journal no. 46879.

Pooja Khatri" A Study of the Challenges Of The Indian MSME Sector". IOSR Journal of Business and Management (IOSR-JBM), Vol. 21, No. 2, 2019, pp. -.05-13