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# FINANCIAL AND NON FINANCIAL PROBLEMS OF MICRO SMALL AND MEDIUM ENTERPRISES (MSMEs) IN THENI DISTRICT

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**ABSTRACT**

The study of entrepreneurship has relevance today, not only because it helps entrepreneurs better to fulfill their personal needs but because of the economic contribution of the new ventures to the country. More than increasing national income by creating new jobs, entrepreneurs act as a positive force in economic growth by serving as a bridge between innovation and marketing. Although government gives great support to basic and applied research, it has not had a great success in translating the technological innovation to products or services. Although intrapreneurship offers a promise of union of those research capabilities and business skills that one expects from a large corporation the result have not been spectacular. This leaves entrepreneurs, who frequently lack both technical and business skills, to serve as the major link in the process innovation, development; economic growth and revitalisation. The study of entrepreneurship and education of potential entrepreneurs are essential parts of any attempt to strengthen this link so essential to a country's economic well-being. In spite of various financial supports extended by the Government to the entrepreneurs at various stages, they are put to many hardships which stand like a stumbling block in their overall development. Hence the present study has been undertaken to evaluate the various problems encountered by the entrepreneurs and their attitude to institutional support to the development of entrepreneurs for their overall development.

**Keywords**: Entrepreneurs –problems – Finance – Infrastructure- Marketing

**INTRODUCTION**

In a developing country like India, a favourable socio-economic environment could help in exploiting the latent entrepreneurial talents. However the unfavorable conditions often hinder the emergence of such entrepreneurial talents. Despite these situational constraints, today many people are entering into the field of entrepreneurship. The entrepreneurial behaviour and enterprise management among the people are supported and sustained by the growth of enterprise involvement by the demographic and environmental factors among the respondents. Such information is expected to provide a mechanism to identify the people who have the potential and to plan appropriate training programmes to develop their potential further.

**STATEMENT OF THE PROBLEM**

In spite of various financial and non financial supports extended by the Government to the entrepreneurs at various stages, they are put to many hardships which stand like a stumbling block in their overall development. Hence the present study has been undertaken to evaluate the various problems encountered by the entrepreneurs.

**Objective**

The main objective of the study is

- To Identify the problems of



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entrepreneurs in Theni District.

**SAMPLING DESIGN**

As per the official records of MSMEs and DIC (District Industries Centre) in Theni district, during the financial year of 2017-18, there are 7960 registered MSMEs are functioning in Theni District. Among these 300 respondents have been selected as sample for this study. Because of convenience, accessibility and proximity to the researcher, convenience sampling method has been adopted for primary data collection.

**PERIOD OF THE STUDY**

Primary data were collected from the entrepreneurs directly during the month of December 2017 to April 2018.

**TOOLS OF ANALYSIS**

Garrett's Ranking Technique has been used to analyze the problems of entrepreneurs' preference for the selection of particular variable or factor by the respondents. Under the Garrett's Ranking Technique the percentage is calculated by using the following formula:

$$\text{Percent position} = \frac{100(Rij-0.5)}{Nj}$$

Where

Rij =Rank given for ith variable by the $j^{th}$ respondent

Nj = Number of variables ranked by the respondents.

**PROBLEM OF ENTREPRENEURS**

There are various problems faced by entrepreneurs at various stages beginning from their initial commencement of enterprises to running their enterprises. Their problems are as follows:

**Absence of Entrepreneurial Aptitude**

Many entrepreneurs under-take training by attending the Entrepreneurship Development Programmes without entrepreneurial bent of mind. As per the study, involvement of entrepreneurs in small scale sectors as owner stands at mere seven percent entrepreneurs who are imparted training by various institutes must be verified on account of aptitude through the tests and interviews.

**Quality of Entrepreneurs Developn Programmes**

All entrepreneurs are given the same training through EDPS. Second-generation entrepreneurs don't need such training as they already have exposure to business.

**Market Problems**

Entrepreneurs continuously face problems in marketing their products. For marketing the products entrepreneurs have to be at the mercy of middleman who pockets chunk of profit. Although the middleman exploits the entrepreneurs, the elimination of middleman is difficult, because it involves a lot of running about. Entrepreneurs also find it difficult to capture the market and make their products popular.

**Financial Problem**

Small entrepreneurs suffer from inadequate financial resources and working capital. They lack access to external funds due to their inability to provide tangible security. Very few entrepreneurs have property in their names. Banks have negative attitude in providing finance for entrepreneurs .They discourage entrepreneur borrowers on the believing they might leave their business at any time. The result is entrepreneurs are forced to rely on their own savings and loans from family or friends. The quantum of such funds is often negligible leading to the failure of enterprises.

**Raw Material Problem**

This difficulty is experienced in a very pronounced form. The quantity, quality and regularity of the supply of raw materials are not satisfactory. There are no quantity discounts, since they are purchased in small quantities and hence charged, higher prices by suppliers. Difficulty is also experienced in procuring semi-manufactured materials. Financial weakness stands in the way of securing raw materials in bulk in a competitive market.

**Heavy Competition**

Many of the enterprises have imperfect organizational set up and they have to face



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severe competition from organized industries.

**High Cost Production**

High cost production undermines the efficiency and stands in the way of the development and expansion of entrepreneurs. Government assistance in the form of grant and subsides to some extent enables them to tide over the difficult situations. However in the long run, it would be necessary to increase efficiency and expand production capacity and thereby reduce cost to make their ultimate survival possible. Other than these, entrepreneurs face the problems of labour, human resources, infrastructure, legal formalities, overload of work, lack of family support and mistrust.

**Lack of Education**

Due to the lack of education, many entrepreneurs are unaware of the latest technological developments and market trends. This creates further problems in the setting up and running of business enterprises. Studies have revealed that uneducated entrepreneurs do not have their own system of accounting which may be sufficient to run a petty business, but certainly not a business enterprise.

**Low Mobility**

Entrepreneurs are greatly handicapped by their inability to travel from one place to another for business reasons. At the Government level, the licensing authorities, labour officers and sales tax officials make life miserable for entrepreneurs by often asking all sorts of humiliating questions. Many are the cases where entrepreneurs have dropped out of business due to the difficulties caused to them by the officials forcing them to run from pillar to post.

**Intense Competition**

Entrepreneurs face stiff competition for their products from organised industries and male entrepreneurs. Moreover, they do not have the organizational set up to pump in a lot of money for advertisement. They also have the mortification of being questioned about the quality of their products since it has been produced by entrepreneurs despite the fact that entrepreneurs are more sincere in maintaining the quality and time schedule.

Ineffective Marketing

While a small business startup may have a unique product with potentially significant market appeal, it must be able to advertise in a cost-effective manner. Without adequate market research, an entrepreneur has no clue if the timing is right to introduce a new product or if the market is large enough to support the business. Without a clear understanding of the market, the entrepreneur may spend too much to acquire new customers. If the cost to acquire them is greater than the revenue the customer generates, then the firm cannot earn a profit.

**Production Problem**

These short comings endanger the health of workers and have adversely affected the rate of production. Many units are following conventional methods of production. Adoption of modern techniques is either disliked by the entrepreneurs or not feasible. Wage rates and service conditions of small industries are not attractive to skilled labour.

**Managerial problem**

Small-scale industries in our country have suffered from the lack of entrepreneurial ability to develop initiative and to undertake risks in the unexplored industrial fields. The inefficiency of management comes first among managerial problems. The entrepreneurial ability of promoters of cottage industries and MSMEs are handicapped by technical knowhow in the areas of production, finance, accounting and marketing management. All the above problems are categorised under two groups.

**PROBLEMS FACED BY RESPONDENTS**

**General problems**

The problems of Small-scale industries are divided into external and internal. It is obvious, that the external problems arise from factors beyond the control of the entrepreneurs-



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the availability of power and other infrastructure facilities required for the smooth running of small-scale sectors. The internal problems affecting the small scale industries are related to organisation, structure and production channel, technical knowhow, training, industrial relations and inadequacy of the management. The problems of industries whether in the small-scale sector or in the organised sectors, are almost identical. Small-scale industries because of this weak financial structure and the limited resources face the problems with difficulty. The entrepreneur therefore has to view the entire spectrum of the problems despite the great limitations under which he functions.

Small unit as is well known is not exclusively and not even mainly dependent on government assistance. Because the small units are not positioned to offer the guarantee required by the banking sector, even when small loans can be raised from the government institutions, the procedure is so cumbersome that most of the entrepreneurs who are either illiterates or semi illiterates, hesitate to make use of these facilities. Working capital asks for a lot of information and data. They are hardly ever satisfied with whatever information the prospective borrower supplies and go on raising queries often not at one time but on installments with wide gaps. This makes matters very difficult for the small industrialist, particulary when one who is new to this way of life. The researcher has felt that it is essential to focus on the attitude of the entrepreneurs towards the working capital problems.

In the study ten statements were identified by the researcher to measure the rank given by respondents towards general problems other than entrepreneurial training. They are 'inadequacy of capital', 'lack of infrastructure facilities', 'inadequate government subsidy and incentives', 'lack of transport and communication' , 'too many middle man', 'competition with big industrial house', 'lack of educational and training facilities', 'requirement of margin money', 'absence of market centres', and 'un productive expenditure'

Table 1 shows general problems faced by respondents.

**Table 1**

**General Problem of Respondents**

| S.No | General Problem of Entrepreneurs | Overall Rank Score | Rank |
|---|---|---|---|
| 1 | Inadequacy of capital | 54 75 | II |
| 2 | Lack of infrastructure facilities | 51 04 | V |
| 3 | Inadequate Government subsidy and Incentives | 47 05 | VII |
| 4 | Lack of transport and communication facilities | 53 28 | III |
| 5 | Too many middle man | 47 36 | VI |
| 6 | Competition with Big Industrial House | 57 59 | I |
| 7 | Lack of Educational and Training Facilities | 46 06 | VIII |
| 8 | Requirement of margin money | 52 03 | IV |
| 9 | Absence of Market centres | 45 02 | X |
| 10 | Un Productive Expenditure | 45 81 | XI |

**Source:** Computed from primary data

Table 1 reveals that competition with big industrial house has been ranked as first by the respondents among the ten general problems of entrepreneurs. It has also been found that inadequacy of capital has been ranked as second. With regard to general problems of entrepreneurs, lack of transport and commutation facilities, lack of infrastructure facilities, requirement of margin money and too many middle man have been ranked as third, fourth, fifth, and sixth respectively. Inadequate government subsidy and incentives have been ranked as seventh by the respondents. Lack of educational and training facilities has been ranked as eighth. Un productive expenditure has been ranked as ninth. Among the general problems of entrepreneurs absence of market centres has been ranked as tenth by the respondents.

**Problems in Entrepreneur Development Programme**

More importantly, the government and



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the financial and non financial institutions are in the forefront in entrepreneurial development. However experience shows that the various training programmes of these institutions aim at training people to take up self- employment. Thus the very purpose of developing entrepreneurial talent among the youth is defeated. This calls for a critical evaluation of entrepreneurial training to develop personnel with conviction and commitment to undertake the task of planning, designing and implemen ting programmes for entrepreneurship development. Hence it seems necessary to see whether the objective of entrepreneurial development training is fulfilled or not. In simple words, there is a need to have a retrospective look into how many participants have actually started their own industries after completing the training.

In the present study seven statements were identified by the researcher to measure the rank given by respondents towards the entrepreneurial training related problems. They are, 'absence of qualified trainers', 'inadequate training facilities', 'non co-operation of financial institution DIC ', 'ill-planned training methodology', 'inconsistency in the programme design', 'absence of market centres' and 'absence of standard curriculums',.

Table 2 shows problems in entrepreneur development programme

**Table 2**

**Problems in Entrepreneurship Development Programme**

| S.NO | Problems of entrepreneurship | Garrett rank | Rank |
|---|---|---|---|
| 1 | Absence of qualified trainers | 53.25 | I |
| 2 | Inadequate training facilities | 35.87 | V |
| 3 | Non co-operation of financial institution DIC | 47.11 | II |
| 4 | Ill-planned training methodology | 30.19 | VII |
| 5 | Inconsistency in the programme design | 39.63 | IV |
| 6 | Absence of Market centres | 43.408 | III |
| 7 | Absence of Standard Curriculums | 33.61 | VI |

**Source:** Computed from primary date

Table 2 Shows that the absence of qualified trainers has been ranked as first by the respondents among the seven problems of entrepreneur development programme. It has also been found that non co-operation of DIC official and bank has been ranked as second. Absence of market centres and absence of standard curriculums have been ranked as third and fourth. Inadequate training facilities have been ranked as fifth. Among the problems of entrepreneurship development, absence of standard curriculums has been ranked as sixth. Among the problems of entrepreneurship development ill planned training methodology has been ranked as seventh by the respondents.

## SUGGESTIONS

### Financial Assistance

The major problem with small entrepreneurs is their lack of understanding of the procedural problems regarding applying for loans and availing of funds from the financial institutions. Procedures of applying for bank loan must be simple and easy to be understood by the small entrepreneurs. And unreasonable delay in sanctioning loans by financial institutions is to be avoided by taking corrective measures.

As in the case of first generation entrepreneurs the financial institutions and banks may also consider feasibility of waiving collateral security, because engineers and graduates who come from poor families do not possess any land or other property.

### Entrepreneurial Development Programme

Merely providing support and leaving the entrepreneur to his own discretion will defeat the objective of the entrepreneurial development programme. It covers the provision of motivational and managerial training. Entrepreneur development programme will make an arrangement to support for the establishment of the unit and would include provision of finance, infrastructure, raw



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materials and machinery. Adequate follow-up and counseling of the entrepreneur is also essential both during the implementation stage and when the unit starts commercial production. A re-orientation in the attitude of supporting organisations is called for.

**Marketing**

Small-scale units do not possess any marketing organisation. In consequence, their products are compared unfavourably with the quality of the products and selling price of large scale industries.

Government should come forward to help the small-scale industries in the form of direct purchase and sub contracting; setting up of permanent exhibition centers on the lines of the head quarters of the district or in the form of such measures as will ensure marketing for small-scale industries. The existing marketing set up should be strengthened with more retail outlets or affiliated outlets and market research on the customer preferences (like design, colour) so that the small enterprises know in advance the market demand and produce accordingly.

**Infra-structural facilities**

Provision of essential infra-structural facilities like land, power, raw material, finance, proximity of markets, assurance of labour supply, availability of skilled man power, presence of banking and finical services, presence of allied or related industries and service and maintenance facilities at concessional rates to entrepreneurs by Government agencies and financial institutions will be of immense use for promoting innovation spirit in small-scale industries.

**CONCLUSION**

The state governments should come forward to liberalise its requirements and rules for grant of loans to socially and economically weaker section of the society irrespective of caste and creed. The supportive actions by Government should include creating a conductive environment which finally leads to entrepreneurial growth.

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