



ISSUES, CHALLENGES AND PROSPECTS OF SMALL AND MEDIUM SCALE ENTERPRISES (SMES) IN PUNE REGION

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ABSTRACT

The paper discussed Issues, Challenges and Prospects of Small and Medium Scale Enterprises (SMEs) of electronic units in Pune Region. This was informed by the high rate of unemployment in the society and the poor performance of SMEs in employment generation. While the research question addressed the extent to which poor financing, inadequate social infrastructures, lack of managerial skills and multiple taxation constitute major challenges in the performance of SMEs in 2000 & 2010, it assumes that government intervention through the provision of financial assistance, social infrastructure & favorable taxation policies will reverse the trend.

The paper adopted a descriptive research design using 285 randomly selected registered Electronic units of SMEs in Pune Region. Results from the data analysis indicated that financing, inadequate social infrastructure, lack of managerial skills and multiple taxation were major challenges confronting SMEs of Electronic Units in Pune Region, thus recommended: provision of soft loans to SMEs operators, government guaranteeing of long term loans to SMEs operators, establishment of SMEs funding agency, public/ private sector partnership in infrastructural provision, capacity building for SMEs operators and provision of tax incentives for SMEs operators.

Introduction

Small and medium scale enterprises (SMEs) are generally regarded as the engine of economic growth and equitable development in developing economics. They are labour intensive, capital saving and capable of helping create most of the one billion new jobs the world will need by the end of the century. They are also perceived as the key to India's economic growth, poverty alleviation and employment generation.

After India's independence in 1947, much emphasis has been laid on the growth of small and medium scale industries as a means of reducing the incidence of poverty and unemployment



in the country. Since adoption of the economic reforms programme in 1991, there has been a decisive shift from capital intensive and large scale industrial projects based on import substitution to small scale industries with immense potentials for developing domestic linkages for sustainable industrial development.

Apart from SMEs potential for self-reliant industrialization using local raw materials, they are in a better position to boost employment, guarantee even distribution of industrial development and facilitate the growth of non-oil exports, employment opportunities, training entrepreneurs, generating income and providing a source of livelihood for the majority of low income households in the country.

Hence, promotion of such enterprises in developing economies like India will bring about great distribution of income and wealth, economic self-dependence, entrepreneurial development and a host of other positive economic uplifting factors.

SMEs are veritable engines for attainment of national objective in terms of employment generation at low investment cost, development of entrepreneurial capabilities and indigenous technology. They reduce the flow of people from rural to urban areas and can easily be established with minimal skill. They also contribute substantially to the country's gross domestic product, export earning and development of employment opportunities.

Most SMEs in Pune region operate as family/sole proprietorship business and are generally classified into commercial, industrial and agricultural categories depending on their activities.

There are 285 registered SMEs of electronics in Pune region offering electronic products/services to the general public. Because, SMEs can be established with minimal capital/registration/managerial skill, there are in the most vantage position for employment generation and promotion of entrepreneurial capacity at the local level.

Despite the presence of many SMEs in Pune region, the high rate of unemployment suggests that these SMEs are experiencing some major challenges that are hindering their performance. It is against this background that it becomes pertinent to discuss the issues, challenges and prospects of small and medium scale enterprises (SMEs) in Pune region.

Statement of problem

Most SMEs in India die within their first five years of existence, a smaller percentage goes into extinction between the sixth and tenth year while only about five to ten percent survive thrive and grow to maturity. Many factors have been identified contributing to this premature death of SMEs. Key among them include: insufficient capital, irregular power supply, infrastructural inadequacies (water, roads), lack of focus, inadequate market research, over-

concentration on one or two markets for finished products, lack of succession plan, inexperience, lack of proper book keeping, lack of proper records or lack of any records at all, inability to separate business and family or personal finances, lack of business strategy, inability to distinguish between revenue and profit, inability to procure the right plant and machinery, inability to engage or employ the right caliber of staff, cut-throat competition.

Most of the problems of SMEs are external to it, among them are those related to capital shortage taxation and regulations, product liability patent and franchising abuses. The internal problems of SMEs in India include: inadequate working capital, stiff competition from larger companies, difficulties in sourcing raw materials, low capacity utilization, lack of management strategies, poor educational background of operators, and huge financial problems while the external problems include: policy inconsistencies, multiple taxation, harsh regulatory requirements and trade groups. It is also important to note that SMEs in Pune region are not immune from the aforementioned challenges in their day to day operations hence it becomes necessary to embark on a study that investigates the issues, challenges and prospects of small and medium scale enterprises in Pune region.

Research objectives

1. To determine whether poor financing constitute a major challenge in the performance of SMEs in Pune region.
2. To ascertain whether inadequate social infrastructures constitute a major challenge in the performance of SMEs in Pune region.
3. To determine whether lack of managerial skills constitute a major challenge in the performance of SMEs in Pune region.
4. To ascertain whether multiple taxation constitute a major challenge in the performance of SMEs in Pune region.

Research Hypotheses

1. Poor financing does not constitute a major challenge in the performance of SMEs in Pune region
2. Inadequate social infrastructures do not constitute a major challenge in the performance of SMEs in Pune region.
3. Lack of managerial skills does not constitute a major challenge in the performance of SMEs in Pune region.
4. Multiple taxation does not constitute a major challenge in the performance of SMEs in Pune region.

Literature Review

In emphasizing the importance of SMEs, Rogers stated that: they enhance capacity building as they serve as entrepreneurial training avenues: they create more employment opportunities per unit of investment because of their labour intensive operations: they achieve a much more relative high value added operations because they are propelled by basic economic activities that depend mostly on locally sourced raw materials: they provide feeder industry services as they serve as major suppliers of intermediate goods and components to large-scale industries as well as major agents for the distribution of final products of such industries, they provide opportunities for the development of local skills and technology acquisition through adaptation. Despite the catalytic role of SMEs in the economic emancipation of countries, some of their major operational challenges in India include-

Financial problems- about 80% of Small and medium enterprises are stifled because of poor financing and other associated problems. The problem of financing SMEs is not so much the sources of funds but its accessibility. Factors identified inhibiting funds accessibility are the stringent conditions set by financial institutions, lack of adequate collateral and credit information and cost of accessing funds.

Harper believes that the capital shortage problem in the small firm sector is partly one, which stems for the uneconomic deployment of available resources by the owner-managers. This view was shared by Ihyemebe who claimed to have seen businessmen take loan for expansion projects only to turnaround to marry new wives acquire chieftaincy titles or buy houses abroad.

Bruch and Hiemenz in study of SMEs in Asia observed that financing working capital needs was the most frequently mentioned problem.

Binks and Ennew expressed the view that the funding problem of SMEs in primarily due to the behavior of banks and imperfection of the capital markets.

Management problems- Lack of trained manpower and management skills also constitute a major challenge to the survival of SMEs in India. According to West and Wood 90% of all these business failures result from lack of experience and competence.

Rogers, also added that inefficiency in overall business management and poor record keeping is also a major feature of most SMEs, technical problems/competence and lack of essential and required expertise in production, procurement, maintenance, marketing and finances have always led to funds misapplication, wrong and costly decision making.

Inadequate Basic Infrastructure- Government has not done enough to create the best conducive environment for the striving of SMEs, the problem of infrastructures ranges from shortage of water supply, inadequate transport systems, lack of electricity to improper solid waste management. India's underdeveloped physical and social infrastructures create abiding constraint to SMEs growth, since they heavily rely on the inefficiently provided state infrastructures and cannot afford the cost of developing alternatives.

Socio-cultural Problems- Most Indian Entrepreneurs do not have the investment culture of ploughing back profits. Bala stressed that the attitude of atypical Indian entrepreneurs is to invest today and reap tomorrow. Also, the socio-political ambitions of some entrepreneurs may lead to the diversion of valuable funds and energy from business to social waste. The problem of bias against made in India goods is significant. Most Indians have developed a high propensity for the consumption of foreign goods as against their locally made substitutes.

Strategic Planning Problems- SMEs often do not carry out proper strategic planning in their operations. Ojiako stated that one problem of SMEs is lack of strategic planning. Sound planning is a necessary input to a sound decision-making.

Location Problem- Market stores are dominated by absentee landlords who charge exorbitant rates. The ownership of market stores by politicians is crowding real small-scale operators out of the market. The high rents charged by store owners on good locations have forced real small-scale operators into the streets or at best into accessible places. Also, domestic economic problems of deregulation and removal of protection as well as the global financial crisis have been detrimental to SMEs.

Poor Accounting System- The accounting system of most SMEs lack standards hence, no proper assessment of their performances. This creates opportunity for mismanagement and eventually leads to the downfall of the establishment.

Multiple taxation – this has become a major problem especially given the role of tax consultants and agents hired by local government. They are often crude in their operation, excessive in their assessment and destructive I their relationship with the production process. They tax everything in their bid to generate revenue without considering the net effect to household incomes and employment.

Unstable policy environment- Instability in government policies have caused some SMEs to collapse. One of such policies is that of the 1980s when government

specified that cocoa should not be exported in raw or unprocessed form after a specified deadline. Many SMEs had to import machineries only for government to reverse this policy. This negatively affected so many SMEs in the cocoa industry.

The business owner should always consider challenging situations and be prepared to meet them with preplanned strategies. The survival of SMEs is only possible through a systematic analysis of the problems they are facing and mapping out appropriate strategies of overcoming them, through a proper understanding of the business environment. For a business to survive in unfriendly environmental conditions it should adopt a strategy that utilizes its strengths to exploit opportunities while avoiding its weaknesses.

Thus, any entrepreneur who wants to succeed must identify business opportunities, be creative, visionary, daring, risk taking, courageous and sensitive to changes in the business environment.

DEFINITIONS OF SME

Section 7 (1) of the Micro, Small and Medium Enterprises Act 2006 takes into account 'Enterprises' in place of 'Industry'. Enterprises have been classified broadly into two categories –

- 1) Enterprises engaged in the manufacture\production of goods, and
- 2) Enterprises engaged in providing\rendering services.

The two categories have been classified in the following manner in terms of investment in plant and machinery (excluding Land and Building)

Investment slab in Manufacturing Enterprises

Sr. No.	Size of unit	Investment limit
1	Micro Enterprises	Up to Rs. 25 lakhs
2	Small Enterprises	Rs. 25 lakhs to Rs. 5 crores
3	Medium Enterprises	Rs. 5 crores to Rs. 10 crores

Investment slab in services Enterprises

Sr. No.	Size of unit	Investment limit
1.	Micro Enterprises	Up to Rs. 10 lakhs
2.	Small Enterprises	Rs. 10 lakhs to Rs. 2 crores
3.	Medium Enterprises	Rs. 2 crores to Rs. 5 crores

Source: Compiled from www.smallindustryindia.com

SMEs in India are seen as the backbone of the economy and key source of economic growth, dynamism and flexibility.

Material and methods

The scope of this research is limited to the 285 randomly selected operators of SMEs in Pune region. It is assumed that responses obtained from the sample respondents would be representative of the opinions of all SME operators in the city while the duration of study is between 2000-2010. The study adopted a cross sectional survey research design using 29 randomly selected operators of SMEs in Pune region for the purpose of questionnaire administration. The population of study consists of 285 registered Electronics Units of SMEs in Pune region while the sample size of 29 was judgmentally determined from 10% of the population size. The sample respondents were selected manufacturing units, service units and job work.

Data collected were presented using tables, graphs analyzed. A total of 29 copies of the questionnaire were administered.

Results and Discussion

Distribution of Responses on Research Questions

Question number 1

Does poor financing constitute a major challenge in the performance of SMEs in Pune region?

Table 1 indicates that a total of 20 units i.e. 68.96% of the respondents were of the opinion that poor financing to a large extent constitute a major challenge in the performance of SMEs in Pune region. 5 units i.e. 17.24% of the respondents expressed a mild extent opinion while 4 respondents i.e. 13.79% expressed a poor extent view that poor financing constitute a major challenge in the performance of SMEs in Pune region. We therefore conclude that poor

financing constitute a major challenge in the performance of SMEs in Pune region as evidenced by the 68.96% large extent response of the sample respondents.

Source: Field Survey, 2015

Question number 2

Do inadequate social infrastructures constitute a major challenge in the performance of SMEs in Pune city?

Table 2 shows that a total of 29 sample units i.e. 19 units means 65.51% of the respondents were of the view that inadequate social infrastructures to a large extent constitute a major challenge in the performance of SMEs in Pune region., 7 units i.e. 24.13% of the respondents expressed a mild extent opinion while 3 respondents i.e. 11.10.34% expressed a poor extent opinion. We therefore conclude that inadequate social infrastructures constitute a major challenge in the performance of SMEs in Pune region as evidenced by the 65.51% large extent response of the sample respondents.

Question number 3

Does lack of managerial skills constitute a major challenge in the performance of SMEs in Pune region?

Table 3 shows that a total of 18 units i.e. 62.06% of the respondents were of the opinion that lack of managerial skills to a large extent constitute a major challenge in the performance of SMEs in Pune region, 7 units i.e. 24.13% of the respondents expressed a mild extent opinion while 4 respondents 13.79% expressed a poor extent opinion. We therefore conclude that lack of managerial skills constitute a major challenge in the performance of SMEs in Pune region as evidenced by the 62.06% large extent response of the sample respondents.

Source – field survey 2015

Question number 4

Does multiple taxation constitute a major challenge in the performance of SMEs in Pune region?

Table number 4, indicates that a total of 22 units i.e. 75.86% of the respondents were of the opinion that multiple taxation to a large extent constitute a major challenge in the performance of SMEs in Pune region, 4 units i.e. 13.79% of the respondents expressed a mild extent opinion while 3 respondents i.e. 10.34% expressed a poor extent opinion.

We therefore conclude that multiple taxation constitutes a major challenge in the performance of SMEs in Pune region as evidenced by the 75.86% large extent response of the sample respondents.

Testing of hypothesis

1. Poor financing does not constitute a major challenge in the performance of SMEs in Pune region.

This hypothesis is rejected as table number 1 shows that about 70% respondents were opinion that poor financing to a large extent constitute a major challenge in the performance of SMEs in Pune region.

2. Inadequate social infrastructures do not constitute a major challenge in the performance of SMEs in Pune region.

This hypothesis is rejected as table number 2 shows that about 66% respondents were opinion that inadequate social infrastructures constitute a major challenge in the performance of SMEs in Pune region.

3. Lack of managerial skills does not constitute a major challenge in the performance of SMEs in Pune region.

This hypothesis is rejected as table number 3 shows that about 62% respondents were opinion that lack of managerial skills constitutes a major challenge in the performance of SMEs in Pune region.

4. Multiple taxation does not constitute a major challenge in the performance of SMEs in Pune region.

This hypothesis is rejected as table number 4 shows that about 76% respondents were opinion that multiple taxation constitutes a major challenge in the performance of SMEs in Pune region.

Conclusion and Recommendations

The paper discussed issues, challenges and prospects of small and medium scale enterprises(SMEs) in Pune region, India. It assumes that government intervention through the provision of financial assistance, social infrastructures and favorable taxation policies will go a long in addressing the major challenges of SMEs.

The four major findings of the research are as follows:

- Poor financing constitutes major challenges in the performance of SMEs in Pune region.
- Inadequate social infrastructure constitutes a major challenge in the performance of SMEs in Pune region.

- Multiple taxation constitutes a major challenge in the performance of SMEs in Pune region.
- Lack of managerial skills constitutes a major challenge in the performance of SMEs in Pune region.

From the findings of this paper, it is suggested that State government should take the following steps to address the major challenges of SMEs in Pune region.

- 1) Provision of soft loan to SMEs: state government should encourage banks in Pune region to set aside 20% of their annual profits before tax as soft loans to SMEs at a very low interest rate.
- 2) Government guaranteeing of long-term loans to SMEs: state government should guarantee long term loans to SMEs in Pune region since they lack the necessary collateral to access such funds from financial institutions.
- 3) Establishment of SMEs funding agency: state government should set up an agency that will assess the working capital requirement of SMEs in Pune region and make such funds available to them at a very low interest rate with long term repayment period.
- 4) Public/Private sector partnership in infrastructural provision: state government should partner with the private sector in the provision of efficient public utilities (power supply, water supply, good transport/communication facilities etc.) in Pune region to ensure uninterrupted supply of these public utilities.
- 5) Capacity building for SMEs operators: state government should liaise with the Pune chamber of commerce and other non-governmental agencies In the organization of regular training programme/seminars for potential and actual SME operators, where they should be educated on how to plan, organize, direct and control their businesses.
- 6) Provision of tax incentives for SMEs operators: state government should abolish multiple taxation of SMEs operators in Pune region. The use of private revenue contractor/task force in the assessment/collection of taxes from SME operators should be discouraged.

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