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# Small And Medium Entrepreneurs Issues And Challenges

## ABSTRACT

*In some countries, there are certain objective standards, which classify the units as micro, small or medium enterprises depending on the number of employees. In some other countries, annual turnover of the company determines the size of an enterprise. The concept of size is also a relative phenomenon with reference to the local economies, since a large company in a small country could possibly be considered as a small company in a larger country. In the Indian context, primarily the concept of Small? Scale Industry (SSI) has been in vogue and the medium enterprise definition is of more recent origin. An SSI is defined on the basis of limit of historical value of investment in plant & machinery, which at present is upto Rs.10 million.*

## 1. INTRODUCTION

There is no universal definition of small and medium? enterprises. In some countries, there are certain objective standards, which classify the units as micro, small or medium enterprises depending on the number of employees. In some other countries, annual turnover of the company determines the size of an enterprise. The concept of size is also a relative phenomenon with reference to the local economies, since a large company in a small country could possibly be considered as a small company in a larger country. In the Indian context, primarily the concept of Small? Scale Industry (SSI) has been in vogue and the medium enterprise definition is of more recent origin. An SSI is defined on the basis of limit of historical value of investment in plant & machinery, which at present is upto Rs.10 million. However, in respect of some specified items, this investment limit has been hiked to Rs.50 million. For the recently announced Small and Medium Enterprises Fund, the GOI has approved the limit of investment in plant and machinery above Rs.10 million and upto Rs.100 million for defining a unit as a Medium Enterprise.

Amongst the developing countries, India has been the first to display special consideration to SSIs and basic focus has been to make economical use of capital and absorb the abundant labour supply in the country.

There is growing worldwide appreciation of the fact that? Small and Medium Enterprises play a catalytic role in the development process of most economies. This position gets reflected in the form of their increasing number and rising proportion in the overall product manufacturing, exports, manpower employment, technical innovations and promotion of entrepreneurial skills. The following Table reflects the contribution of SMEs in some of the developed economies.

Country	Contribution in terms of incremental share in employment	Employment manufacturing sector output
USA	67%	61%
Japan	80%	72%
France	53%	80%
Korea	74%	61%

(Source: V K Chopra – Innovations in SME Financing – Internet)

The implications for SMEs of the emerging global and regional scenario in the

Asian and Pacific region may be analyzed. In less developed economies and economies in transition in particular, SMEs have played fundamental role in economic and industrial production. While the bulk of employment in those economies is provided by SMEs and such enterprises are mostly in the private sector, they are usually neglected and discriminated against in terms of Government attention and access to finance management and marketing expertise and technology. This is particularly the case in economies in transition, where the large-scale state sector continues to assume the major role in economic and industrial development.

The growing economic significance of the SMEs as sources of new business creation and employment generation in the developed, OECD countries especially since 1970s is now widely recognized in an increasingly growing volume of Literature (OECD1997). The recent structural shifts in industrial production from the Fordist approach of mass production to more flexible and adaptable production regime in response to constantly changing market opportunities have led to a notable resurgence of these industries in the West. The re-emergence of the SMEs in the developed world makes economic case for fostering development of these industries more stronger than ever before.

These promotional arguments for the SMEs, while universally emphasized are often put forward by their ardent advocates in a small versus large context and thus arouse serious debates concerning their economic viability. Much of such controversies may, however breakdown if the intrinsic virtues specific to SMEs and unavailable to large-scale industries are correctly identified and carefully exploited. A combined interaction of the forces of product-mix, locational factors, technological advantages and market advantages create opportunities for SMEs to grow and prosper at all levels of development which are often ignored by the traditional

approach to their economic strengths and development potentials.

In India, SME sector is the second largest manpower employer after agriculture and the output from the SSI sector alone constitutes 40 percent share of the value added in the manufacturing sector and one third of national exports. Within the SME sector, the small sector serves as a green field for nurturing of entrepreneurial talent and helping the units to grow in to medium and large size. The promotion of SMEs, therefore, becomes a major area for policy focus, both in developed as well as developing countries.

Over the years, the SSI sector in India has continued to remain an important sector of the economy with its noteworthy contribution to the gross domestic product, industrial production, employment generation and exports. As per the Third All India Census of SSIs (2001-02), there were 10.52 million SSI units in the country, of which 1.37 were registered and 9.15 unregistered units. For the year ended March 2004, the said number increased to 11.52 million, providing employment to 27.40 million persons and contributing an output of over Rs.3, 480 billion in FY2004.

Small scale industries can be characterized with the special feature of adopting the labor intensive approach for commodity production. As these industries lack capital, so they utilize the labor power for the production of goods. The main advantage of such a process lies in the absorption of the surplus amount of labor in the economy that was not being absorbed by the large and capital intensive industries. This, in turn, helps the system in scaling down the extent of unemployment as well as poverty. It has been empirically proved all over the world that Small Scale Industries are adept in distributing national income in more efficient and equitable manner among the various participants in the process of good

production than their medium or larger counterparts.

Small Scale Industries help the economy in promoting balanced development of industries across all the regions of the economy. This industry helps the various sections of the society to hone their required skills as well as resources available locally. Khadi and handloom, sericulture, handicrafts, village industries, coir, bell metal are some of the traditional small-scale industries in India. The modern small industries offer a wide range of products starting from simple items like hosiery products, garments, leather products, fishing hook etc to more sophisticated items like television sets, electronics control system, various engineering products especially as ancillaries to large industrial undertakings. Indian small-scale industries (SSIs) are mostly modern small-scale industries. Modernization has widened the list of products offered by this industry. The items manufactured in modern Small-scale service & Business enterprises in India now include rubber products, plastic products, chemical products, glass and ceramics, mechanical engineering items, hardware, electrical items, transport equipment, electronic components and equipments, automobile parts, bicycle parts, instruments, sports goods, stationery items and clocks and watches

India received a record foreign direct investment (FDI) worth \$ 24.57 billion in 2007-08, after china and Hong Kong, making it the largest recipient FDI in Asia. This has promoted the government to set an FDI target of \$35 billion for 2008-2009. India is ranked 86th position in Trade and Development Index (TDI) by UNCTAD, while the World Bank puts India in 39<sup>th</sup> position for logistics Performance index. Considering the wide dispersal of small and medium industries in the country and having reared to the national objective of regionally balanced and orderly growth, an appeal made in August 2005 regarding stepping up

credit flow to SMEs to achieve 20 percent growth on year-on-year basis has been very well received by the banks. As on March 31, 2007 under CGS credit guarantee in respect of 68,062 proposals from SSI, tiny and SSBE units were approved, covering aggregate credit assistance of over Rs. 1705 – crore showing a growth of around 70 per cent over previous year.

(Source: Financial Express, SME World, Nov 2007- Jan 2008.)

## 2. REVIEW OF LITERATURE

The SSI sector in India has grown because of competition and is extending to exploit the global opportunities. However the major trends of globalization are providing some opportunities and challenges for the small and medium enterprises. The review of literature has brought out the following challenges faced by the SMEs.

The operations of mega businesses in the form of retail chains and outlets pose an immediate threat to the small business. Big businesses control the entire supply chain and they manage it to meet the customer needs dynamically. They also leverage high-end technology to keep costs under control in a way that cannot be emulated by the small-scale businesses. They also have several partnerships which allow them to bundle a wide variety of products and services for their customers.

It is generally accepted that the basic principles of marketing are universally applicable to large and small businesses (Siu and Kirby, 1998; Reynolds, 2002). The study of marketing in SMEs has been recognized as a problematic area for researchers for over twenty years (Chaston and Mangles, 2002; Siu and Kirby, 1998). SME marketing in practice is done through networking (Gilmore et al., 2001) or a combination of transaction relationship, interaction and network marketing (Brodie et al., 1997). More recently the use of Internet

marketing (Chaffey et al., 2000) or e-commerce (Rayport and Jaworski, 2001) has become popular in all types of businesses including SMEs. Siu and Kirby (1998) point out that empirical evidence has been generated in an ad hoc manner as a consequence of a general absence of a systematic approach to the subject. Insufficient knowledge about marketing in small business remains and a small business marketing theory specifically related to the understanding and knowledge of strategic marketing is needed.

Sourcing and retaining qualified employees is a major challenge for small scale businesses. Small organizations cannot provide the depth of knowledge or experience that enables an employee to make a major transition into another company easily. Consequently SMEs are often in a stage of frequent fire fighting and shortage of manpower. Every business owner has to comply with a variety of regulations, including obtaining permits and licenses, and health and safety inspections. While this is necessary for the overall well-being of the community, this poses a burden on the business owner in terms of time and money. Environmental regulations, workplace rules and the paperwork associated with tax compliance contribute to most of the burden. Research shows that small firms employing less than 20 employees have a higher annual regulatory burden per employee than firms employing more than 500 employees.

In SME sector, technology is mainly sought in the form of processes and product know-how. Technology, which encompasses products, processes, designs, machinery tools, testing, equipment, technical training, consultancy, up gradation etc., is considered one of the most important components of industrial process. Small business owners are generally lagging in technology adoption. The primary reason is the high cost of keeping up with the latest technological innovations in the

particular industry. The major risk with a small business living with outdated technology is that of competition leapfrogging over it and quickly reducing it to oblivion.

Small businesses many a times find it very difficult to obtain finance, especially during starting up or when they have a relatively new business. Lenders require security for loans and many small businesses do not have adequate security to be accepted. During downturns in the economy, the capital crunch grows more severe as banks reduce lending to riskier borrowers, to which category small businesses belong. This results in financial crisis.

In the light of the above background an attempt is made to study the profiles of Small and Medium Entrepreneurs and understand their operational mechanisms.

### 3. OBJECTIVES OF THE STUDY

- ◆ To study the personal background, behaviors patterns and life-style in relation to small and medium entrepreneurs.
- ◆ To understand the operational mechanisms of Small and Medium Entrepreneurs

### 4. METHODOLOGY

Data was collected from the respondents by administering the following questionnaires:

- Entrepreneur self-assessment profile guide
- Business skills inventory
- Friedmens' self-assessment questionnaire

### 5. SAMPLE

Data was collected from small and medium entrepreneurs residing in Ranga Reddy district and Hyderabad city of Andhra Pradesh. The data was collected by using the purposive sampling method a total of 46 entrepreneurs were contacted and information thus obtained was analyzed.

**Table No.1****showing the distribution of the sample**

SECTOR	ENTERPRISES
Restaurant	8
Hotel and Bar	2
Diagnostic Centre	4
Health service	3
Air tickets, Forex	3
Others	26
<b>Total</b>	<b>46</b>

Source: Primary Data from Survey

## 6. RESULTS AND DISCUSSIONS

The first objective of the study is to study the personal background, behavior patterns and life styles in relation entrepreneurs. The personal background covered aspects like education, technical expertise, special training undergone, early responsibility, early experience etc.

With regard to educational qualification it ranged from no formal education to pursuing post graduate programmes. Except for two of them others were graduates and postgraduates. The nature of the business varied from services, restaurants hotels, diagnostic centers, health services, air tickets, Forex etc. With regard to the year of establishment 18 were established between 2005-2008, 16 were established in 2006-2004, 3 in 1997-2000, 7 established in 1993-1996, and 2 established in 1989-1992. Thus we may say that the small and medium enterprises of the study are in a growing phase.

Most of the cases it was out of economic necessity that they became entrepreneurs. In two instances the family members were involved and the inspiration was drawn from them. Otherwise, they had no prior experience and learnt the nuances on

the job. In the behavioral patterns it was observed that all of them had a positive attitude towards work, took initiative were energetic, high in achievement motivation, innovative and high in self-confidence. They were also found to be optimistic, goal directed and had clarity in what they were seeking. They had faith in their personal abilities, and resourcefulness. It was evident from the responses that the entrepreneurs were energetic, and tolerance for ambiguity and could manage time effectively

In the study it was observed that among 46 enterprises 29 enterprises recruited upto 20 employees, 7 employed 21-40 employees, 8 provided employment to 41-60 employees and 2 were having more than 70 employees.

**Table No.2**  
**Number of Employees**

No of Enterprises	Range of Employees	%
29	Up to 20	63
7	21-40	15
8	41-60	18
2	61-100	4

The turnover of entrepreneurs varied from 50 lakhs to 2 crores in which 30 of them had a turnover of 50 lakhs, 11 of them ranged between 50 lakhs to 1 crore, 1 was in the range of 1-1.5 crore and 4 of them between 1.5-2 crores.

**Table No.3**  
**Turnover**

Entrepreneurs	Range of turnover	Percentage
30	Up to 50 lakhs	65
11	50-1 crore	24
1	1-1.5 crore	2
4	1.5- 2 crore	9

Regarding the aspects of investment in the organization, 18 entrepreneurs invested upto 10 lakhs in their business, followed by

13 of them who invested 11-20 lakhs, 8 ranging between 21-30 lakhs, 2 between 31-40 and 5 entrepreneurs between 41-50 lakhs.

**Table No.4**  
**Amount Invested in business**

Enterprises	Range of investment	Per centage
18	Upto 10 lakh	39
13	11-20	28
8	21-30	17
2	31-40	5
5	41-50	11

With regard to amount invested in technology up gradation, the government of India has recently taken some steps to financially assist the small-scale industries for technology up gradation. The policy initiation of government on technology development and modernization fund and credit linked capital subsidy scheme for technology upgradation of SME units have been formulated. In our study it is observed that the entrepreneurs are aware of the scheme and invested differently and according to their need. The allocation of money for technology upgradation in our sample is as follows.

**Table No.4**  
**Amount Invested in business**  
**Amount invested in Up Gradation of Technology**

Entrepreneurs	Range of amount invested	Percentage
29	Up to 10 lakh	63
7	11-20 lakh	15
5	21-30 lakh	11
1	31-40 lakh	2
4	41-50 lakh	9

With regard to training and development of their employees 29 of them revealed that they hire skilled employees, 7 of them specified that they give instructions on the job, 8 indicted that instructions are given every day, and 2 of them outsource the training process.

The study also revealed that all entrepreneurs were aware of the competition in their fields and were managing them effectively. It indicates that the entrepreneurs have strong personal determination in developing their enterprises. All of them had a complaint receiving mechanism and attended to them immediately.

Since all the enterprises were service oriented and customer centric, their major strengths were providing good and quality services, specialized services, hard work, transparency, repetition and sustaining customer relationship.

All the entrepreneurs had clarity about the firm, type of customers they were handling and the operations involved in them. They also had clarity about the competition and priced their products with full awareness. They were aware as to the source of borrowing money or governmental avenues. The strong management functions that emerge from the study were competing with others, managing business operations and managing people. The weak points they had to address were delayed services, handling critical customers etc.

The major challenges faced by them were lack of skilled manpower, increase in prices, change in customer demands, competition, inflation etc.

Out of the 14 aspects we have considered the Pearson coefficient of correlation was found to be significant at 0.01 level, between number of employees and production, between machinery and up gradation of technology and between operating cost and technology. Therefore we accept the null hypothesis and reject alternate hypothesis. In other words, the size of the organization does not have a correlation with the operational mechanisms.

## 7. CONCLUSIONS

The study aimed to identify the

entrepreneurial skills among small entrepreneurs and were found to be high in achievement motivation, had a positive attitude towards work, were goal directed and had clarity in what they were seeking. With regard to the operations of the small business, they had full knowledge of business nuances, and planned strategies to overcome competition. The data also rejects the null hypothesis and it was found that all the

• aspects that we were included in the study  
 • were independent of each other. Our findings  
 • suggest that policy makers involved in SME  
 • sector need to focus on nurturing a  
 • competitive business environment. It is  
 • difficult to interpret the dynamics of the SME  
 • sector and to gauge the interaction between  
 • business environment and the success of  
 • small and medium enterprises.  
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