WHAT ARE THE CHALLENGES FACED BY COMPANIES IN OBTAINING FINANCE? : A SURVEY OF MANUFACTURING COMPANIES IN GUJARAT

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Abstract

Small and medium-size enterprises (SMEs) have been recognized as a backbone of country's development. It is, thus, important to understand what contributes to their success as well as the difficulties they face. Various Surveys have shown that the lack of available financing from financial institutions is one of the biggest problems facing small businesses today. In this paper, the factors are identified which contribute in terms of obtaining financing. A survey of promoters of companies from the state of Gujarat has been conducted to know the problems and challenges faced by promoters. The ranking in the problems faced by the promoters has been analyzed. Further analysis has been done with the help of structural equation modeling.

Key Words: SMEs, Challenges

Introduction

Small and medium-size enterprises (SMEs) have long been recognized as one of the cornerstones of a country's development. It is, thus, important to understand what contributes to their success as well as the difficulties they face. Surveys have shown that the lack of available financing from financial institutions is one of the biggest problems facing small businesses today. In this paper, we try to identify the aspects of obtaining financing that SMEs have most problems with as well as to determine which firm-specific factors (such as type of set-up, size of operation, years in operation and type of industry) contribute to the firms' ability to borrow. The results of our survey indicate that the main reasons firms do not apply for financing from financial institutions are that they are unable or unwilling to provide information required; that they have other sources of funds available; and the high interest rates charged by the financial institutions. For the firms that applied, the main difficulties faced were the lack of collateral, the lack of proven track records, the lack of proper business plans and the need to show good sales turnover.

Literature Review

Elizabeth Asiedu and James A. Freeman (2006), examined the effect of globalization on firm performance by the analysis focus on the *within-industry* effect of globalization i.e., the extent to which globalization in the industry in which a firm operates affects the firm's performance. They considered the literature which suggests that the effect of globalization on firm

performance depends on firm size (e.g., Mei Hsu and Been-Lon Chen 2000). As pointed out by Baggs (2005), however, a lack of data has resulted in small firms being understudied. The analysis extends literature in three important ways: (a) Analyzes the effect of globalization on small firms; (b) Examine the effect of trade as well as FDI on firm performance; and (c) Examine the within-region effect of globalization—i.e., the extent to which the level of globalization in the region in which a firm operates affects performance. The result showed that minority-owned firms lack access to mainstream markets and therefore are unable to establish linkages with MNCs.

Tanay Nandi, Satabdee Mohanty (2010), presented a thorough analysis of firms after an up-close scrutiny of small and medium enterprises and their prominent role in the global marketplace. They studied the various theoretical and practical approaches to the topic of Small Medium Enterprise and their globalization on a worldwide front to understand the concept of internationalization of entrepreneurial enterprises and firms in the context of SMEs – to project the worldwide attention drawn towards the growing role of SMEs in the global marketplace and their valuable contribution to international global markets. The paper elucidates upon the consequences that accrue from firms entering foreign markets at inception and their survival in the international market when the transition from domestic to international market takes place.

Khizrasabdar Khan (2011) , investigated the importance of SMEs being an important source of providing employment opportunities. Primary data collected from a survey of 826 small industrial units is being utilized to empirically test the important determinants of firm growth. Binomial distribution is employed to find out the role of firm-specific factors along with owner/manager characteristics, organizational and commercial capabilities as important determinants of employment generation. Different problems and obstacles encountered by SMEs in generating employment activities are also been undertaken in their analysis. Firm age, education of owner, boss attitude, family business, networks, new process, major improvements, market share, on job training and unique know how are found to be significantly and positively increases the probability of firm growth. Age of owner, foreign trade regulations, taxes, other regulations, political instability, inflation and lacking of skilled labor adversely reduces the probability of firm growth in terms of employment opportunities. Government should device such policy measures that can help small units to grow and provide employment opportunities.

Rajesh Mishra and P.K.Jain (2012), examined the impact of globalization in boosting up of SMEs in state of Punjab with an assessment of challenges and opportunities of SMEs for future expansion. He concluded that International Co-operation (IC), if sought for modernization, technology up-gradation and enhancement of competitiveness of Indian SMEs successfully, the day shall surely come when desired GDP will be achieved and India will become a Formidable Nation in the world, with pride. In developing and emerging economies, SMEs played an important role as being the primary source of employment and generate revenue and export *(Rajshekhar (Raj) G. Javalgi, Patricia R. Todd, JBR-2011)*. The researched extended to relationships surrounded the globalisation of SMEs in India and their entrepreneurial behaviour, commitment to globalisation and firm resources. The analysis was made based on the data collected from 150 SMEs. The research concluded that the success reasons of internationalisation were commitment, entrepreneurial orientation and ability to use human capital at best. MSME contributed around 90 % industrial growth and 50% of the employment

globally *(Shripad Marathe, IJA-2017)*. The research focused on performance of MSME and compared it to financial crisis of 2007-08. MSME sector has contributed for the 21 % employment for India. The research used structural break modal chow chest and graphical representation. The results showed MSME had been affected by financial crisis as well as MSME had helped in economic development of India.

The growth of country is based on growth of it's economy which is displayed by the growth and development of industries of the country *(Ms. Heena Upadhyay, Dr. Vivek Singh Kushwaha, IBME, July 2017)*. The research focused on finding future trends and understanding the present status of MSME. Ishu Garg, Suraj Walia (2012) included that the Micro, Small and Medium endeavours MSMEs have been expecting an earth shattering employment in as a rule financial enhancement of a country like India and can be named as the 'engine of advancement' and considered as the guide for a country where countless are jobless or underemployed and standing up to the issues of desperation by giving brief broad scale work, with cut down cost of capital and wind up being a second greatest work business by cultivating fragment.

MSME (Micro, Small and Medium Enterprises) being the core of Indian Industrial Sector *(MrsAshuKatyal ,Mrs Betsy Xaviour, 2015)*. Their role particularly to a developing country like India is very identifiable. Their role is not only up to generating jobs but also till reassuring low skilled level labors to start as entrepreneur level in countryside areas. Economic Times in June 2013 said, MSMEs employ almost 40% of India's jobs. This led to Manufacturing industry output at 45% and EOUs which near about 40% of total by MSMEs. It was found that the Micro, Small and Medium Enterprises (MSME) sector has been emerged as engine of growth for Indian economy *(Dr. M.S. Vasu Dr. K. Jayachandra 2014)*. The sector plays a contributes to the balanced and inclusive growth, equitable distribution of national income and regional dispersal of enterprises by way of mobilization of capital and developing entrepreneurial skills. *Dr. Sanjeeb Kumar Dey (2014)* stated was discovered the criticalness of MSME in modern era in both creating and creating nations for its essential commitment in satisfying different financial targets, for example, vast scale work, advancement of fares and enterprise improvement, expanded mechanical. At the same time he likewise broke down that eventually, it is the MSME segment which can help achieve the objective of proposed National Manufacturing Policy of raising the commitment of assembling part in GDP from 16% at present to 25% before the finish of 2022.*Ishu Garg, Suraj Walia (2012)* featured that the Micro, Small and Medium undertakings MSMEs have been assuming a ground-breaking job in generally speaking monetary improvement of a nation like India and can be named as the 'motor of development' and considered as the aid for a nation where a huge number of individuals are jobless or underemployed and confronting the issues of destitution by giving prompt expansive scale work, with bring down expense of capital and end up being a second biggest labour business by farming segment.

The auto subordinate industry in India has seen enormous limit extension and modernization because of section of remote vehicle makers in the post advancement period *(G. Kannabiran, P. Dharmalingam, JEIM-2012)*.So as to recognize and assess the empowering agents and inhibitors, a point by point study was done among enrolled Indian auto subordinate SMEs amid 2010. In spite of the positive outside IT condition and acknowledgment of advantages, propelled IT appropriation by SMEs in the auto ancillaries is constrained by absence of monetary abilities and in-house IT HR. The inspiration driving the study was to take a gander

at the odds and perils looked by privately-owned companies (FBs) from globalization in a making country condition and how those associations responded purposely to these parts *(Mohamed Zain, Norizan M. Kassim, JFBM, 2012)*. The focal indicative framework used was essential condition showing. The results exhibited that the availability of chances rising up out of globalization was apparently more basic to FBs than the perils that they may look due to globalization. the openness of the wellsprings of advantages not simply impacts the associations' status to go up against the forces of globalization it also impacts them to figure new methods to face such powers.

The paper explored SMEs' reactions to the difficulties presented by the new economy, i.e. the joint activity of the expanding globalization and the dissemination of ICTs *(Lucia Piscitello, and Francesca Sgobbi, C&C, 2013)* The present paper gives exact proof on these issues by dissecting the conduct of 277 SMEs situated in two of the biggest Italian modern regions. The exact discoveries (I) demonstrate the presence of separated standards of conduct in drawing nearer ICTs and e-business applications; (ii) recommend that, at the firm dimension, the demeanour towards ICTs and e-business mirrors the organization methodology in confronting worldwide rivalry. The research examined the focused needs and assembling vital choices of little and medium endeavours (SME) in Taiwan *(Wen-Hsien Chen, APJM, 1999).* The strategy for case study is utilized to tap 33 distributed case provides details regarding SMEs' activities. It is uncovered that quality is seen the most imperative among the seven focused needs, i.e. quality, reliability, cost, adaptability, advancement, administration, and time. The general significance of the ten vital choices is found in the accompanying succession: item advancement, workforce, association, control framework, innovation, quality program, offices, vertical incorporation, limit, execution estimation. Administrative ramifications drawn from the exploration discoveries are examined. Perceptions about the proprietors of SMEs are additionally informed.

Research Methodology

The primary data has been collected by conducting survey of manufacturing organisations across all states of Gujarat. Secondary information has been collected with the help of internet, magazines, etc. The Research design is descriptive in nature. The research approach is quantitative approach.

Data collection and Analysis

Data analysis has been done with the help of Rank Analysis. The structural equation modelling has been used for the purpose of data analysis. The findings discusses about the issues and challenges faced by SMEs in Gujarat.

Literature Review

Analysis of problems faced by companies in Gujarat

1. Ho: There is no significant difference in the mean rank of financing related issues faced by SMEs that influence business among the Annual Turnover of the organizations.

Ha: There is a significant difference in the mean rank of financing related issues faced by SMEs that influence business among the Annual Turnover of the organizations.

Ranks of financing related issues faced by SMEs that influence business among the Annual Turnover of the organizations

	Annual_Turnover	N	Mean Rank
I have Insufficient collateral or guarantee	1,00,000-5,00,000	33	133.56
	5,00,000-10,00,000	30	152.50
	10,00,000-50,00,000	70	157.72
	50,00,000-1 crore	77	197.68
	1 crore +	182	229.58
	Total	392	
Interest rates or price too high	1,00,000-5,00,000	33	171.26
	5,00,000-10,00,000	30	182.47
	10,00,000-50,00,000	70	158.96
	50,00,000-1 crore	77	186.50
	1 crore +	182	222.06
	Total	392	
The firm has Lower capitalization, high debt equity and loan to assets ratio	1,00,000-5,00,000	33	148.56
	5,00,000-10,00,000	30	161.65
	10,00,000-50,00,000	70	164.06
	50,00,000-1 crore	77	199.79
	1 crore +	182	222.02
	Total	392	
We don't have time to wait for loans from banks & need very fast	1,00,000-5,00,000	33	138.05
	5,00,000-10,00,000	30	169.93
	10,00,000-50,00,000	70	203.10
	50,00,000-1 crore	77	190.77
	1 crore +	182	211.36
	Total	392	
I don't aware about bank schemes launched for SMEs	1,00,000-5,00,000	33	200.67
	5,00,000-10,00,000	30	181.53
	10,00,000-50,00,000	70	166.79
	50,00,000-1 crore	77	189.48
	1 crore +	182	212.61
	Total	392	
There is no transformation in bankers' attitude towards rules of financing	1,00,000-5,00,000	33	153.71
	5,00,000-10,00,000	30	168.47
	10,00,000-50,00,000	70	162.36
	50,00,000-1 crore	77	184.76
	1 crore +	182	226.98
	Total	392	
	1,00,000-5,00,000	33	161.33

There is no transparency in banking system	**5,00,000-10,00,000**	*30*	*175.32*
	10,00,000-50,00,000	*70*	*174.34*
	50,00,000-1 crore	*77*	*172.44*
	1 crore +	*182*	*225.07*
	Total	*392*	
Bankers do not follow proper rule of financing	**1,00,000-5,00,000**	*33*	*173.76*
	5,00,000-10,00,000	*30*	*141.97*
	10,00,000-50,00,000	*70*	*170.14*
	50,00,000-1 crore	*77*	*178.52*
	1 crore +	*182*	*227.36*
	Total	*392*	
Banks are giving enough time to assess person and business activities compared to financials and securities	**1,00,000-5,00,000**	*33*	*202.18*
	5,00,000-10,00,000	*30*	*194.52*
	10,00,000-50,00,000	*70*	*160.37*
	50,00,000-1 crore	*77*	*191.14*
	1 crore +	*182*	*211.96*
	Total	*392*	
Regulations for subsidizing bank loans are not available	**1,00,000-5,00,000**	*33*	*163.38*
	5,00,000-10,00,000	*30*	*162.20*
	10,00,000-50,00,000	*70*	*182.66*
	50,00,000-1 crore	*77*	*180.99*
	1 crore +	*182*	*220.04*
	Total	*392*	
Banks take long process for allocating finance	**1,00,000-5,00,000**	*33*	*193.18*
	5,00,000-10,00,000	*30*	*158.68*
	10,00,000-50,00,000	*70*	*180.47*
	50,00,000-1 crore	*77*	*199.05*
	1 crore +	*182*	*208.42*
	Total	*392*	
Credit history off firm is encouraging	**1,00,000-5,00,000**	*33*	*159.47*
	5,00,000-10,00,000	*30*	*174.65*
	10,00,000-50,00,000	*70*	*156.95*
	50,00,000-1 crore	*77*	*208.91*
	1 crore +	*182*	*216.78*
	Total	*392*	

Test Statistics of financing related issues faced by SMEs that influence business among the Annual Turnover of the organizations

	Chi-Square	df	Asymp. Sig.
I have Insufficient collateral or guarantee	*43.906*	*4*	*.000*
Interest rates or price too high	*22.947*	*4*	*.000*
The firm has Lower capitalization, high debt equity and loan to assets ratio	*25.854*	*4*	*.000*
We don't have time to wait for loans from banks & need very fast	*15.170*	*4*	*.004*
I don't aware about bank schemes launched for SMEs	*9.937*	*4*	*.041*
There is no transformation in bankers' attitude towards rules of financing	*29.024*	*4*	*.000*
There is no transparency in banking system	*23.531*	*4*	*.000*
Bankers do not follow proper rule of financing	*29.650*	*4*	*.000*
Banks are giving enough time to assess person and business activities compared to financials and securities	*11.619*	*4*	*.020*
Regulations for subsidizing bank loans are not available	*17.577*	*4*	*.001*
Banks take long process for allocating finance	*7.399*	*4*	*.116*
Credit history off firm is encouraging	*21.694*	*4*	*.000*

The table above shows the results of Kruskal- Wallis test. For all variables (except Banks take long process for allocating finance) the p value is less than 0.05. Hence it can be concluded that there is a significant difference in the mean rank of financing related issues faced by SMEs that influence business among the Annual Turnover of the organizations.

2.Ho: There is no significant difference in the mean rank of financing related issues faced by SMEs that influence business among the Legal Status of the organizations.

Ha: There is a significant difference in the mean rank of financing related issues faced by SMEs that influence business among the Legal Status of the organizations.

Ranks of financing related issues faced by SMEs that influence business among the Legal Status of the organizations

	legal_Status	N	Mean Rank
I have Insufficient collateral or guarantee	Sole proprietorship	163	168.04
	Partnership	107	193.69
	Limited liability (LTD)	42	217.82
	Limited liability partnership (LLP)	29	247.16
	Private Limited	57	262.62
	Total	398	
Interest rates or price too high	Sole proprietorship	163	188.04
	Partnership	107	194.02
	Limited liability (LTD)	42	240.12
	Limited liability partnership (LLP)	29	193.43
	Private Limited	57	215.71
	Total	398	
The firm has Lower capitalization, high debt equity and loan to assets ratio	Sole proprietorship	163	177.54
	Partnership	107	200.41
	Limited liability (LTD)	42	227.25
	Limited liability partnership (LLP)	29	185.55
	Private Limited	57	247.24
	Total	398	
We don't have time to wait for loans from banks & need very fast	Sole proprietorship	163	178.05
	Partnership	107	203.52
	Limited liability (LTD)	42	230.75
	Limited liability partnership (LLP)	29	202.38
	Private Limited	57	228.82
	Total	398	
I don't aware about bank schemes launched for SMEs	Sole proprietorship	163	177.89
	Partnership	107	204.30
	Limited liability (LTD)	42	228.54
	Limited liability partnership (LLP)	29	193.26
	Private Limited	57	234.05
	Total	398	
	Sole proprietorship	163	180.59
	Partnership	107	208.39

There is no transformation in bankers' attitude towards rules of financing	**Limited liability (LTD)**	*42*	*211.38*
	Limited liability partnership (LLP)	*29*	*190.86*
	Private Limited	*57*	*232.53*
	Total	*398*	
There is no transparency in banking system	**Sole proprietorship**	*163*	*184.73*
	Partnership	*107*	*201.38*
	Limited liability (LTD)	*42*	*225.42*
	Limited liability partnership (LLP)	*29*	*177.79*
	Private Limited	*57*	*230.14*
	Total	*398*	
Bankers do not follow proper rule of financing	**Sole proprietorship**	*163*	*188.93*
	Partnership	*107*	*194.98*
	Limited liability (LTD)	*42*	*234.67*
	Limited liability partnership (LLP)	*29*	*199.48*
	Private Limited	*57*	*212.32*
	Total	*398*	
Banks are giving enough time to assess person and business activities compared to financials and securities	**Sole proprietorship**	*163*	*197.89*
	Partnership	*107*	*197.70*
	Limited liability (LTD)	*42*	*193.21*
	Limited liability partnership (LLP)	*29*	*190.88*
	Private Limited	*57*	*216.50*
	Total	*398*	
Regulations for subsidizing bank loans are not available	**Sole proprietorship**	*163*	*195.64*
	Partnership	*107*	*185.38*
	Limited liability (LTD)	*42*	*204.95*
	Limited liability partnership (LLP)	*29*	*209.69*
	Private Limited	*57*	*227.84*
	Total	*398*	
Banks take long process for allocating finance	**Sole proprietorship**	*163*	*197.08*
	Partnership	*107*	*200.86*
	Limited liability (LTD)	*42*	*183.35*
	Limited liability partnership (LLP)	*29*	*169.53*
	Private Limited	*57*	*231.02*
	Total	*398*	
Credit history off firm is encouraging	**Sole proprietorship**	*163*	*189.76*
	Partnership	*107*	*191.05*

Limited liability (LTD)	*42*	*208.39*
Limited liability partnership (LLP)	*29*	*236.40*
Private Limited	*57*	*217.89*
Total	*398*	

Test Statistics of financing related issues faced by SMEs that influence business among the Legal Status of the organizations

	Chi-Square	df	Asymp. Sig.
I have Insufficient collateral or guarantee	*40.527*	*4*	*.000*
Interest rates or price too high	*9.697*	*4*	*.046*
The firm has Lower capitalization, high debt equity and loan to assets ratio	*20.253*	*4*	*.000*
We don't have time to wait for loans from banks & need very fast	*13.660*	*4*	*.008*
I don't aware about bank schemes launched for SMEs	*14.699*	*4*	*.005*
There is no transformation in bankers' attitude towards rules of financing	*11.156*	*4*	*.025*
There is no transparency in banking system	*10.625*	*4*	*.031*
Bankers do not follow proper rule of financing	*6.659*	*4*	*.155*
Banks are giving enough time to assess person and business activities compared to financials and securities	*1.717*	*4*	*.788*
Regulations for subsidizing bank loans are not available	*6.146*	*4*	*.189*
Banks take long process for allocating finance	*7.753*	*4*	*.101*
Credit history off firm is encouraging	*7.010*	*4*	*.135*

The table above shows the results of Kruskal- Wallis test. The variables like Bankers do not follow proper rule of financing, Banks are giving enough time to assess person and business activities compared to financials and securities, Regulations for subsidizing bank loans are not available, Banks take long process for allocating finance and Credit history off firm is encouraging have the p value more than 0.005.Hence it can be concluded that significant difference in the mean rank of financing related issues faced by SMEs that influence business among the Legal Status of the organizations.

3.Ho: There is no significant difference in the mean rank of financing related issues faced by SMEs that influence business among the Industry Sector of the organization.

Ha: There is a significant difference in the mean rank of financing related issues faced by SMEs that influence business among the Industry sector of the organization.

Ranks of financing related issues faced by SMEs that influence business among the Industry Sector of the organization

	Industry_Sector	N	Mean Rank
I have Insufficient collateral or guarantee	Manufacturing	277	230.56
	Wholesale/retail	49	157.94
	Business services	28	96.02
	Any Other	44	116.13
	Total	398	
Interest rates or price too high	Manufacturing	277	211.92
	Wholesale/retail	49	195.83
	Business services	28	135.14
	Any Other	44	166.36
	Total	398	
The firm has Lower capitalization, high debt equity and loan to assets ratio	Manufacturing	277	222.08
	Wholesale/retail	49	171.21
	Business services	28	106.02
	Any Other	44	148.33
	Total	398	
We don't have time to wait for loans from banks & need very fast	Manufacturing	277	212.31
	Wholesale/retail	49	176.88
	Business services	28	159.00
	Any Other	44	169.81
	Total	398	
I don't aware about bank schemes launched for SMEs	Manufacturing	277	215.26
	Wholesale/retail	49	178.67
	Business services	28	132.32
	Any Other	44	166.22
	Total	398	
There is no transformation in bankers' attitude towards rules of financing	Manufacturing	277	219.51
	Wholesale/retail	49	181.32
	Business services	28	125.75
	Any Other	44	140.74
	Total	398	
There is no transparency in banking system	Manufacturing	277	213.42
	Wholesale/retail	49	176.68
	Business services	28	178.70
	Any Other	44	150.49
	Total	398	
Bankers do not follow proper rule of financing	Manufacturing	277	215.39
	Wholesale/retail	49	173.57

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	Business services	*28*	*168.07*
	Any Other	*44*	*148.36*
	Total	*398*	
Banks are giving enough time to assess person and business activities compared to financials and securities	**Manufacturing**	*277*	*208.31*
	Wholesale/retail	*49*	*193.30*
	Business services	*28*	*172.41*
	Any Other	*44*	*168.17*
	Total	*398*	
Regulations for subsidizing bank loans are not available	**Manufacturing**	*277*	*213.04*
	Wholesale/retail	*49*	*176.53*
	Business services	*28*	*171.16*
	Any Other	*44*	*157.86*
	Total	*398*	
Banks take long process for allocating finance	**Manufacturing**	*277*	*211.43*
	Wholesale/retail	*49*	*174.50*
	Business services	*28*	*154.52*
	Any Other	*44*	*180.88*
	Total	*398*	
Credit history off firm is encouraging	**Manufacturing**	*277*	*219.32*
	Wholesale/retail	*49*	*168.38*
	Business services	*28*	*133.55*
	Any Other	*44*	*151.36*
	Total	*398*	

Test Statistics of financing related issues faced by SMEs that influence business among the Industry Sector of the organization

Statements	Chi-Square	df	Asymp. Sig.
I have Insufficient collateral or guarantee	*82.216*	*3*	*.000*
Interest rates or price too high	*18.313*	*3*	*.000*
The firm has Lower capitalization, high debt equity and loan to assets ratio	*44.383*	*3*	*.000*
We don't have time to wait for loans from banks & need very fast	*12.701*	*3*	*.005*
I don't aware about bank schemes launched for SMEs	*21.281*	*3*	*.000*
There is no transformation in bankers' attitude towards rules of financing	*35.116*	*3*	*.000*
There is no transparency in banking system	*15.943*	*3*	*.001*
Bankers do not follow proper rule of financing	*20.008*	*3*	*.000*

Banks are giving enough time to assess person and business activities compared to financials and securities	*7.106*	*3*	*.069*
Regulations for subsidizing bank loans are not available	*14.608*	*3*	*.002*
Banks take long process for allocating finance	*11.612*	*3*	*.009*
Credit history off firm is encouraging	*31.277*	*3*	*.000*

The table above shows the results of Kruskal- Wallis test. The statement "Banks are giving enough time to assess person and business activities compared to financials and securities" is having the p value more than 0.005.Hence it can be concluded that there is no significant difference with respect to statement " Banks are giving enough time to assess person and business activities compared to financials and securities" among different sectors of industry. For all other statements, the p value is less than 0.05 indicating that there is a significance difference in the mean rank of statements with respect to sectors of Industry.

Significance of MSMEs in the era of Globalization

Significance of MSMEs in the era of Globalization

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	*103*	*25.9*	*25.9*	*25.9*
	Yes	*295*	*74.1*	*74.1*	*100.0*
	Total	*398*	*100.0*	*100.0*	

When asked about it, 74.1 percent of the respondents reported positively that MSME will occupy a significant place. The respondents who have given yes to the previous question, asked to rate the factors in 1 to 5 scale. The factors are arranged according to their ascending mean. The factor "MSMEs help in the economic development of the country" is having highest mean of 4.48 among all statements. Overall majority of the respondents do believe that MSMEs help in the economic development of the country.

Descriptive Statistics Significance of MSMEs in the era of Globalization

Factors	N	Mean	Std. Deviation
MSMEs help in the economic development of the country	295	4.4814	.86041
MSMEs provide employment to large number of people in our country	295	3.9763	.87838
Contribution of MSMEs are significant in the GDP	295	3.8983	.83493
MSMEs help in the capacity and skill building of the people	295	3.8542	.98065
MSMEs are accessible to rural and urban areas and can provide the opportunities to get a livelihood of the people easily.	295	3.8305	1.02606
MSMEs enhance the standard of living of the people	295	3.7831	1.08815
MSMEs help in the economic empowerment of the masses	295	3.7661	1.01160

The respondents who have given "no "to previous question were asked to rate the following factors regarding MSME. All factors are arranged according to the descending of the mean. The statement" MSMEs find tough competition from the MNCs and large organizations" is having highest mean. Respondents believe that there is a tough competition from MNCs and large organisations. The statement "MSMEs cannot make economies of scale and profit" is having lowest mean among the all statements.

MSMEs cannot make economies of scale and profit

Factors	N	Mean	Std. Deviation
MSMEs find tough competition from the MNCs and large organizations	103	4.1359	1.19680
Buying behaviour of the consumers has change since globalization.	103	3.7961	1.11460
MSMEs cannot access the need for finance easily due to many reasons	103	3.6893	1.05746
It's difficult to get good labour in the MSMEs due to low paying capacity	103	3.6893	.92915
MSMEs cannot invest on technology and innovation and product design	103	3.6408	1.02760
Market completion is tough and MSMEs cannot find its market now	103	3.5825	1.23292
It is hard to make break even for the MSMEs	103	3.5534	1.14385
MSMEs are not a profitable venture now	103	3.3981	1.17440
MSMEs cannot make economies of scale and profit	103	3.3786	1.07664

External impediments

The Model under Study:

- The model of the External Impediments has 1 factor, as indicated by the ellipses.
- There are 10 observed variables, as indicated by the 10 rectangles.
- The observed variables load on the factors in the given pattern:
- Each observed variable loads on one and only one factor.
- Errors of measurement associated with each observed variable are also shown in the figure.
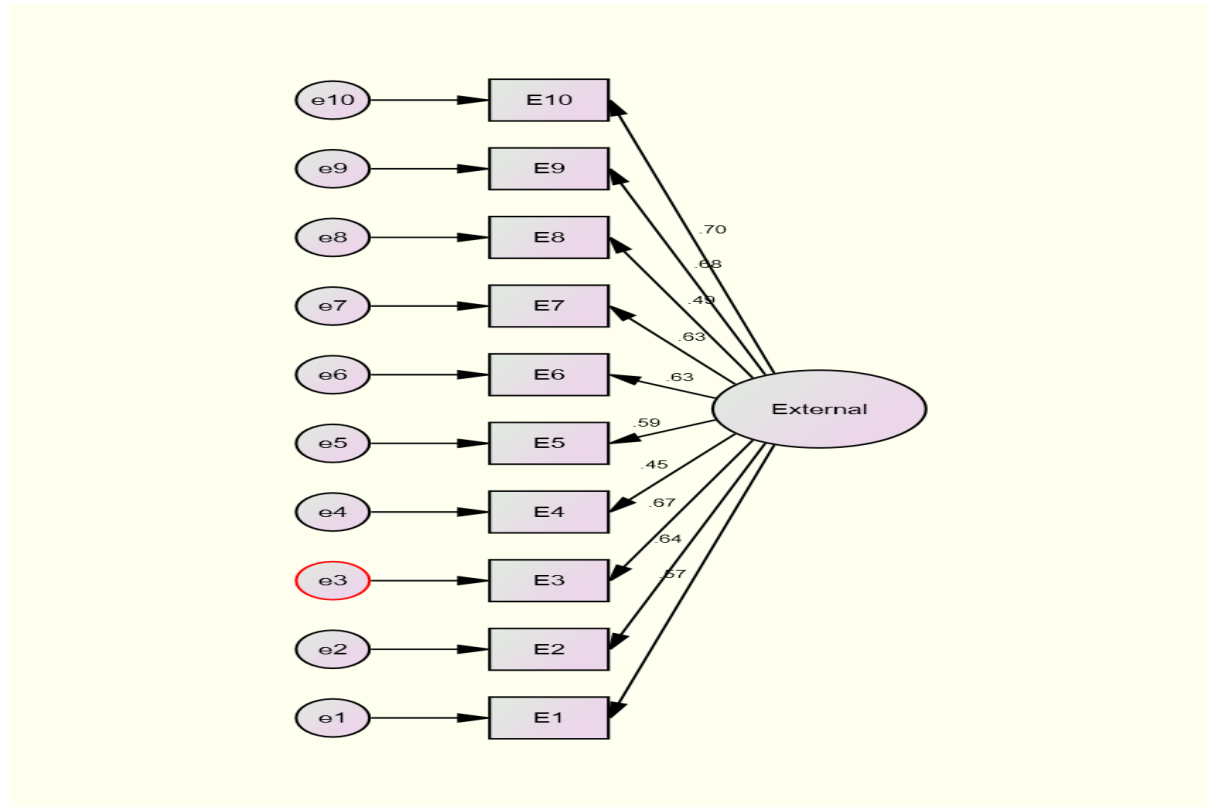
Estimated Model:

Estimated model of external impediments

Standardized Regression Weights: The table below shows the Standardized Regression weight for each of the variables. It can be seen that all the standardized regression weights are above 0.5 indicating high level of convergent validity. It can be concluded that all variables are contributing in explaining the fair amount of variance in factors. Hence scale of External Impediments is to be considered as Valid.

Standardized Regression Weights: (Group number 1 - Default model)

Standardized Regression Weights: (Group number 1 - Default model)

				Estimate
Competitive Environment	VAR00002	<---	External	.567
Skilled workers in the labour market	VAR00001	<---	External	.645
Poor Infrastructure	VAR00003	<---	External	.666
Poor implementation of government assistance	VAR00004	<---	External	.450
Reduction in product demand	VAR00005	<---	External	.587
Products/services fast faded away in the market	VAR00006	<---	External	.627

				Estimate
Legal Environment	VAR00007	<---	External	.632
Political Stability	VAR00008	<---	External	.490
Change in Consumer buying behaviour	VAR00009	<---	External	.679
Skilled workers in the labour market	VAR00010	<---	External	.698

Model Fit Summary: The table below shows the Model Fit.

On the basis of all three types of-fit results, it can be concluded that the hypothesized model fits the sample data extremely well.

Model Fit Summary

Absolute Fit Measures		
Test	**Recommended Value**	**Model Under Study**
χ^2	p> 0.05	p=0.000
CMIN/DF	< 5	3.21
RMSEA	<0.10	0.05
Relative Fit Measures		
Test	**Recommended Value**	**Model Under Study**
CFI	>0.90	0.94
NFI	>0.90	0.94
RFI	>0.90	0.93
IFI	>0.90	0.94
Parsimonious Fit Measures		
Test	**Recommended Value**	**Model Under Study**
PCFI	>0.50	0.75
PNFI	>0.50	0.76

Note : All Recommended values are based on Hair et al.(2000), Ullman (1996) recommended CMIN/DF < 5

χ^2 = Chi- Square Test , CMIN/DF = Chi square test / Degree of freedom ,

RMSEA = Root Mean Square Error of Approximation, CFI = Comparative Fit Index

NFI = Normed Fit Index, RFI = Relative Fit Index , IFI = Incremental Fit Index,

PCFI= parsimony Comparative Fit Index , PNFI= Parsimony Normed Fit Index

Internal impediments

The Model under Study:

- The model of the Internal Impediments has 1 factor, as indicated by the ellipses.
- There are 10 observed variables, as indicated by the 10 rectangles.
- The observed variables load on the factors in the given pattern:
- Each observed variable loads on one and only one factor.
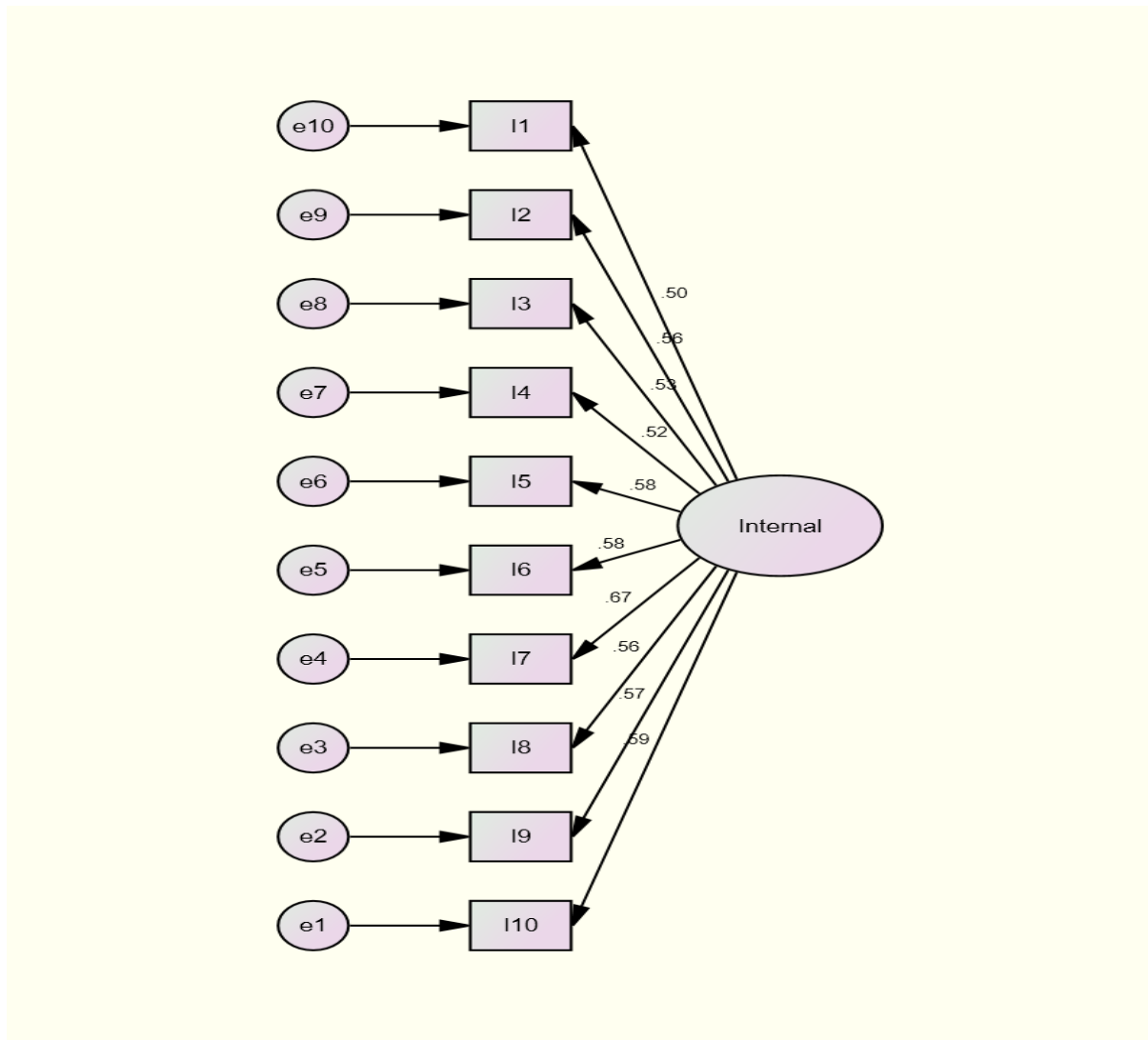- Errors of measurement associated with each observed variable are also shown in the figure.

Estimated Model

Figure 6.24: Estimated model of internal impediments

Standardized Regression Weights: (Group number 1 - Default model)

The table below shows the Standardized Regression weight for each of the variables. It can be seen that all the standardized regression weights are above 0.5 indicating high level of convergent validity. It can be concluded that all variables are contributing in explaining the fair amount of variance in factors. Hence scale of Internal Impediments is to be considered as Valid.

Standardized Regression Weights: (Group number 1 - Default model)

				Estimate
Confidence to new financial risk	VAR00020	<---	Internal	.587
Unresponsive to the demand for change	VAR00019	<---	Internal	.571
Confidence of the managerial team	VAR00018	<---	Internal	.561
Failure to fulfil customer demand	VAR00017	<---	Internal	.665
Increasing operational costs	VAR00016	<---	Internal	.576
Limited ICT involvement	VAR00015	<---	Internal	.584
Less innovative and flexible	VAR00014	<---	Internal	.523

				Estimate
Limited financial ability	VAR00013	<---	Internal	.531
Lack of market and product knowledge	VAR00012	<---	Internal	.560
Limited Financial Ability	VAR00011	<---	Internal	.499

Model Fit Summary: The table below shows the Model Fit.

On the basis of all three types of-fit results, it can be concluded that the hypothesized model fits the sample data extremely well.

Model Fit Summary

Absolute Fit Measures		
Test	**Recommended Value**	**Model Under Study**
χ^2	p> 0.05	p=0.000
CMIN/DF	< 5	3.89
RMSEA	<0.10	0.06
Relative Fit Measures		
Test	**Recommended Value**	**Model Under Study**
CFI	>0.90	0.93
NFI	>0.90	0.92
RFI	>0.90	0.92
IFI	>0.90	0.92

Parsimonious Fit Measures		
Test	**Recommended Value**	**Model Under Study**
PCFI	>0.50	0.67
PNFI	>0.50	0.66

Note : All Recommended values are based on Hair et al.(2000), Ullman (1996) recommended CMIN/DF < 5

χ^2 = Chi- Square Test , CMIN/DF = Chi square test / Degree of freedom ,

RMSEA = Root Mean Square Error of Approximation, CFI = Comparative Fit Index

*NFI = Normed Fit Index, RFI = Relative Fit Index , IFI = Incremental Fit Index,*

PCFI= parsimony Comparative Fit Index , PNFI= Parsimony Normed Fit Index

Performance of MSMEs

The Model under Study

- The model of the performance of the MSMEs has 1 factor, as indicated by the ellipses.
- There are 6 observed variables, as indicated by the 6 rectangles.
- The observed variables load on the factors in the given pattern:
- Each observed variable loads on one and only one factor.
- Errors of measurement associated with each observed variable are also shown in the figure.
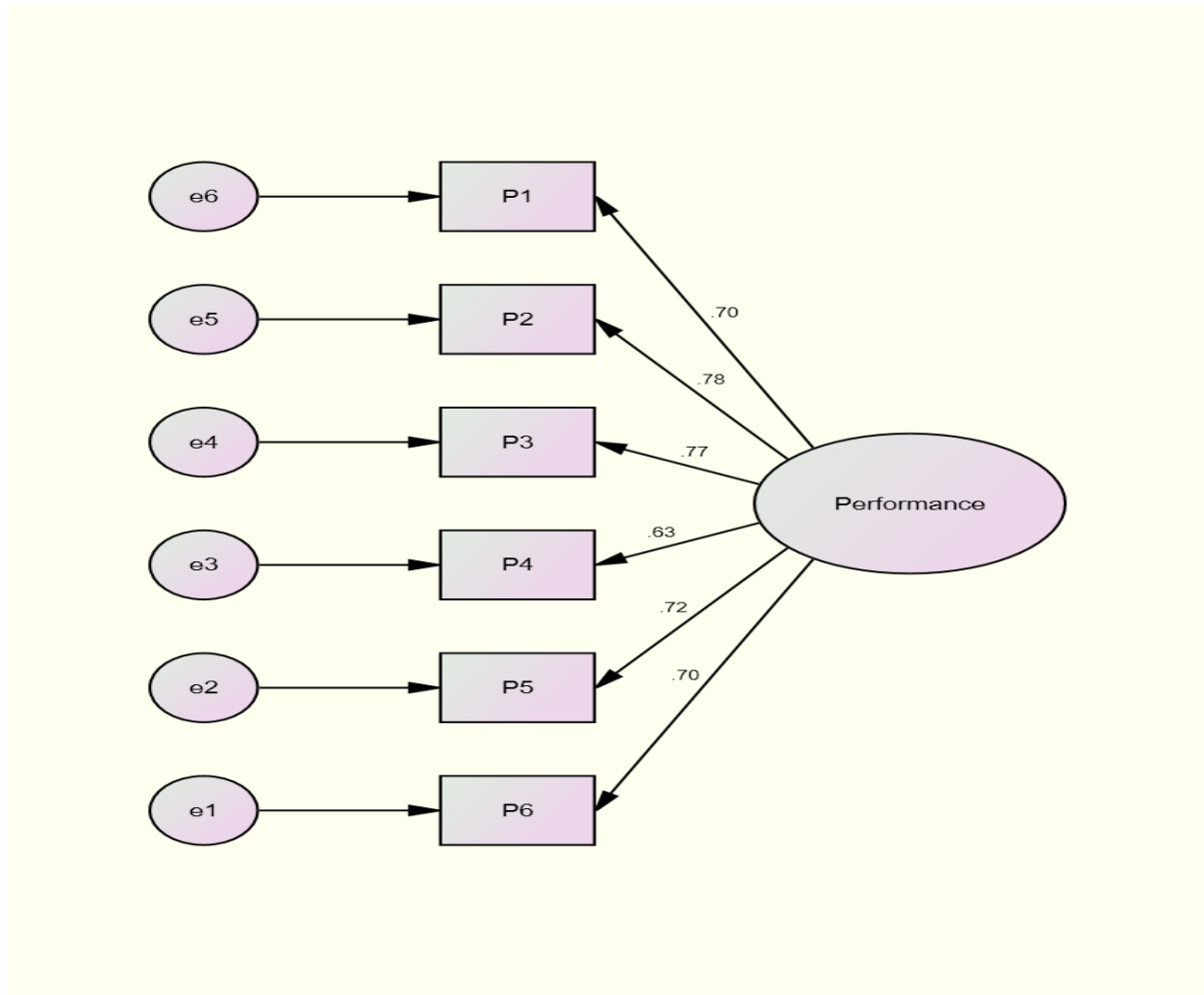
Estimated Model:

Estimated model of performance of MSMEs

Standardized Regression Weights: (Group number 1 - Default model)

The table below shows the Standardized Regression weight for each of the variables. It can be seen that all the standardized regression weights are above 0.5 indicating high level of convergent validity. It can be concluded that all variables are contributing in explaining the fair amount of variance in factors. Hence scale of Performance of MSMEsis to be considered as Valid.

Standardized Regression Weights: (Group number 1 - Default model)

				Estimate
Turnover	VAR00026	<---	Performance	.703
Profit Before Tax	VAR00025	<---	Performance	.717
Profit After Tax	VAR00024	<---	Performance	.628
Employment – Number of Employees	VAR00023	<---	Performance	.768
Capital	VAR00022	<---	Performance	.780
Long Term Asset Values	VAR00021	<---	Performance	.702

Model Fit Summary: The table below shows the Model Fit.

On the basis of all three types of-fit results, it can be concluded that the hypothesized model fits the sample data extremely well.

Model Fit Summary

Absolute Fit Measures		
Test	Recommended Value	Model Under Study
χ^2	p> 0.05	p=0.000
CMIN/DF	< 5	2.89
RMSEA	<0.10	0.05
Relative Fit Measures		
Test	Recommended Value	Model Under Study
CFI	>0.90	0.96
NFI	>0.90	0.97
RFI	>0.90	0.96
IFI	>0.90	0.96
Parsimonious Fit Measures		
Test	Recommended Value	Model Under Study
PCFI	>0.50	0.79
PNFI	>0.50	0.78

Note : All Recommended values are based on Hair et al.(2000), Ullman (1996) recommended CMIN/DF < 5

*χ^2 = Chi- Square Test , CMIN/DF = Chi square test / Degree of freedom ,*

RMSEA = Root Mean Square Error of Approximation, CFI = Comparative Fit Index

NFI = Normed Fit Index, RFI = Relative Fit Index , IFI = Incremental Fit Index,

*PCFI= parsimony Comparative Fit Index , PNFI= Parsimony Normed Fit Index*

Structural Equation Modelling : The effect of External and Internal impediments on Performance of the MSME: The Structural Equation Modelling has been applied to study the effect of external and internal impediments on the performance of the MSMEs.Hypothesized

Model:
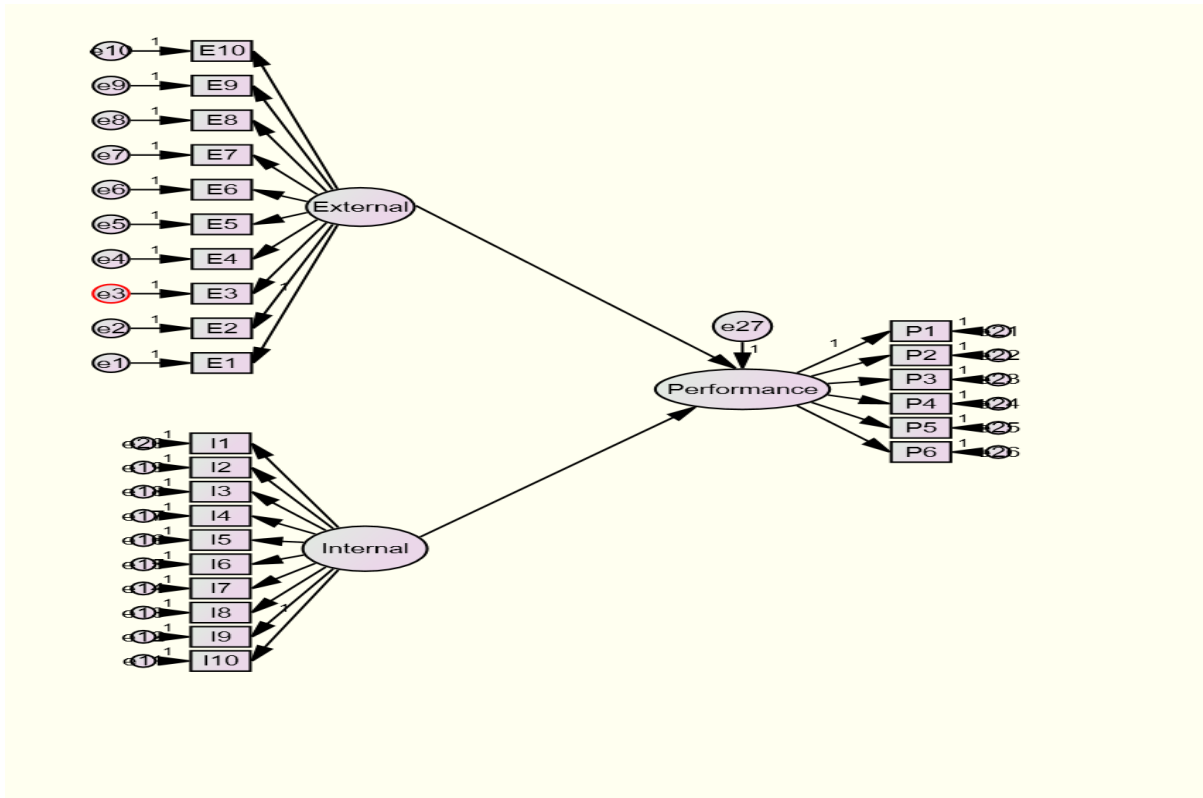
SEM-Hypothesized Model

Estimated Model:
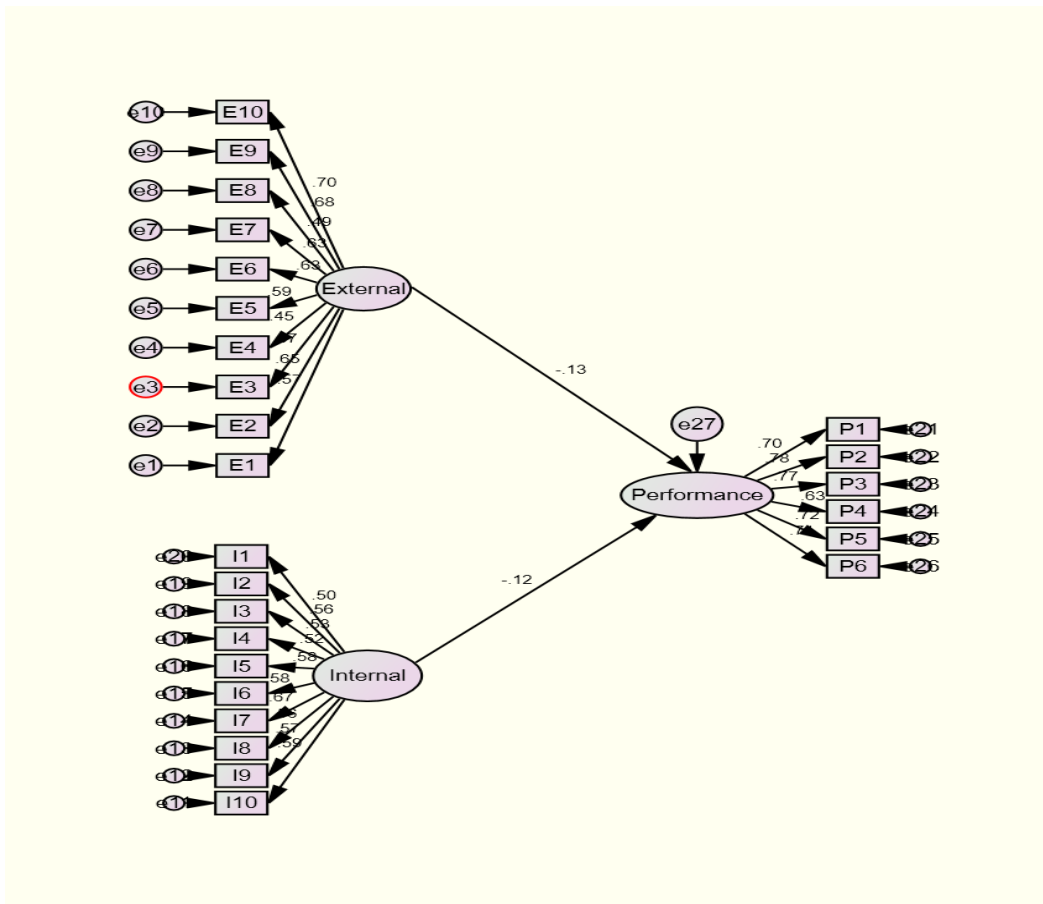
SEM-Estimated Model

Standardized Regression Weights: (Group number 1 - Default model)

The table below shows the Standardized Regression weight for each of the variables. It can be seen that all the standardized regression weights are above 0.5 indicating high level of convergent validity. It can be concluded that all variables are contributing in explaining the fair amount of variance in factors.

Standardized Regression Weights: (Group number 1 - Default model)

			Estimate
VAR00002	<---	External	.567
VAR00001	<---	External	.645
VAR00003	<---	External	.666
VAR00004	<---	External	.452
VAR00005	<---	External	.587
VAR00006	<---	External	.626
VAR00007	<---	External	.631
VAR00008	<---	External	.490
VAR00009	<---	External	.679
VAR00010	<---	External	.699
VAR00020	<---	Internal	.586
VAR00019	<---	Internal	.569
VAR00018	<---	Internal	.560
VAR00017	<---	Internal	.667
VAR00016	<---	Internal	.576
VAR00015	<---	Internal	.585
VAR00014	<---	Internal	.523
VAR00013	<---	Internal	.533
VAR00012	<---	Internal	.560
VAR00011	<---	Internal	.501
VAR00021	<---	Performance	.704
VAR00022	<---	Performance	.781
VAR00023	<---	Performance	.772
VAR00024	<---	Performance	.632
VAR00025	<---	Performance	.720
VAR00026	<---	Performance	.706

The external and internal impediments affects negatively on the performance of the organization.

External and internal impediments affects negatively on the performance of the organization

			Estimate	S.E.	C.R.	P
Performance	<---	External	-.13	.028	3.910	.000
Performance	<---	Internal	-.12	.027	3.878	.001

The table above shows the result of the hypothesis testing. As the p value for both the tests are less than 0.05, Ho can be rejected at 5 percent level of significance and it can be concluded that both external and internal impediments affects negatively to the performance of the organization. The MSMEs must overcome these external and internal impediments to improve the performance of the organization.

Model Fit Summary: The table below shows the Model Fit.

On the basis of all three types of-fit results, it can be concluded that the hypothesized model fits the sample data extremely well.

Model Fit Summary

Absolute Fit Measures		
Test	Recommended Value	Model Under Study
χ2	p> 0.05	p=0.000
CMIN/DF	< 5	2.37
RMSEA	<0.10	0.059

Relative Fit Measures		
Test	Recommended Value	Model Under Study
CFI	>0.90	0.95
NFI	>0.90	0.94
RFI	>0.90	0.94
IFI	>0.90	0.94

Parsimonious Fit Measures		
Test	Recommended Value	Model Under Study
PCFI	>0.50	0.71
PNFI	>0.50	0.70

Note : All Recommended values are based on Hair et al.(2000), Ullman (1996) recommended CMIN/DF < 5

χ2 = Chi- Square Test , CMIN/DF = Chi square test / Degree of freedom ,

RMSEA = Root Mean Square Error of Approximation, CFI = Comparative Fit Index

NFI = Normed Fit Index, RFI = Relative Fit Index , IFI = Incremental Fit Index,

PCFI= parsimony Comparative Fit Index , PNFI= Parsimony Normed Fit Index

Findings and Conclusion : While measuring the effect of internal impediments, Failure to fulfil customer demand has emerged as most important variable. As for MSMEs, the fulfilling the customer demand is very critical and if failure occurs, it can have adverse impact on the performance of the MSMEs. Confidence to new financial risk and Limited ICT involvement are the most critical internal impediments that can hinder the growth of MSMEs. If the organizations is not able to manage the financial risk, it leads to many adverse effect on the growth and development of MSMEs. The importance of ICT on performance of the MSMEs is also significant. The MSMEs needs to adopt the good ICT practices. It is very challenging to cope up with the change. ICT adoption involves investment not only with respect to money but also with respect to time and other resources. While there is no guarantee that the ICT will bring the positive impact on the performance, the success depends upon managing the ICT adoption and implementation. Skilled workers in the labour market is emerged as the most

critical external factor which can lead to performance of the MSMEs. Though INDIA has more number of workers available, but the skill is still a problem. Getting a skilled labour is very challenging. If MSMEs are able to manage the skilled workforce, it can lead to improved performance of the organization. Change in consumer buying behaviour is emerged as second external critical factor. Now a days, customers are considered as king. The buying pattern of the customers needs to be studied by the MSMEs to survive in the competition. If MSMEs are able to manage the change in consumer buying behaviour, it can lead to positive growth of the organization. Poor infrastructure is emerged as third important external factor. The transportation cost plays very critical role in determining the overall price of the product. If good infrastructure supports then many problems can be solved and ultimately it can lead to positive performance of the organization.

Capital and Growth in employment in number of employees are emerged as top two performance indicators. Ultimately everything comes to management of capital. If MSMEs are growing, it will surely lead to recruiting new talents. Both external and Internal impediments are found to be affecting on the performance of the MSMEs. External impediments are affecting little bit more than internal impediments. Hence it can be concluded that the Skilled workers, Consumer buying behaviours and infrastructure are top three critical external factors that needs to be managed by the MSMEs to have positive performance in the business. Customer demand, ICT and managing financial risk are three critical internal impediments. If MSMEs are able to cope up with customer demand, ICT and financial risk. MSMEs are finding so many internal and external impediments that is hindering their growth. If they overcome the internal and external impediments then it can have positive impact in their performance. It is concluded that the impact of internal and external impediments on performance of the MSMEs is found negative. It has negative impact on turnover, profit before tax, profit after tax, capital and long term asset values.