

Examining the Challenges to MSMEs' Growth

Haritha B., Dr.S.Meena

¹Research Scholar, Department of Commerce,

Dr. M.G.R. Educational and Research Institute, Chennai, India.

²Professor, Department of Commerce,

Dr. M.G.R. Educational and Research Institute, Chennai, India.

Abstract: Micro, Small, and Medium-Sized Enterprises (MSMEs) are vital to the Indian economy since they significantly boost GDP, exports, and employment. Nevertheless, a number of operational and structural issues frequently impede their expansion. This study attempts to look into the main challenges that MSMEs face, such as regulatory restrictions, insufficient infrastructure, technology constraints, and lack of access to financing. The study emphasizes the ways in which these problems limit the sector's potential and makes recommendations for managerial and policy changes. The findings are meant to serve as a guide for stakeholders as they develop strategies that enhance MSMEs' competitiveness and sustainable growth.

Keywords: MSMEs, India, Enterprise Development, Regulatory Difficulties, Technology Adoption, Growth Barriers, and Access to Finance

Introduction

MSMEs, or micro, small, and medium-sized businesses, are acknowledged as the foundation of the Indian economy. They contribute significantly to inclusive economic growth, industrial development in rural and semi-urban areas, and job creation. Notwithstanding their significance, MSMEs encounter certain obstacles that impede their expansion and long-term viability. Their performance has been greatly influenced by issues like difficult access to formal credit, antiquated technology, a lack of skilled workers, insufficient market connectivity, and complicated regulatory frameworks. Understanding and resolving these growth barriers is crucial in light of the growing global competitiveness and digital change. In order to lay the groundwork for significant reform and assistance in the MSME ecosystem, this study focuses on identifying and evaluating these problems.

Need for the Study

1. To highlight the major challenges faced by MSMEs that hinder their growth and long-term sustainability.
2. To understand the gap between government policies and actual implementation in supporting MSMEs.
3. To identify the impact of financial, technological, and infrastructural issues on MSME

development.

4. To provide data-driven insights and practical solutions for improving MSME performance.
5. To strengthen the role of MSMEs in economic growth, employment, and innovation through informed policy recommendations.

Objectives

- To pinpoint the main obstacles MSMEs encounter while trying to obtain capital, technology, and skilled labor.
- To examine the effects of infrastructure and regulatory constraints on MSMEs' expansion and competitiveness.
- To assess the efficiency of government support programs and policies in resolving MSME issues.
- To assess how digital adoption and market accessibility affect MSME performance.
- To make useful suggestions and methods to help MSMEs get beyond the growth barriers they confront.

Review of Literature

1. **Richa Shelly, (2020)** To understand how the MSME sector supports the development of green jobs in India. to draw attention to the issues facing the MSME sector in India. Important to India's economy, the MSME sector faces obstacles such

insufficient infrastructure, restricted credit availability, late payments, and ignorance of government programs. In order to sustain its growth and guarantee inclusive economic development, these issues must be resolved.

2. **Princy Saini (June-July 2014)** To examine the both internal and external obstacles that MSMEs face and stressing the need to reduce regulatory barriers and provide sufficient assistance, while also highlighting the role MSMEs play in industrial output, job creation, exporting, and fostering inclusive economic growth. According to the study's findings, finance is a significant barrier to the expansion of micro, small, and medium-sized businesses. The lower and middle classes are capable of lifting themselves out of poverty; they are proactive and ambitious in launching new projects and businesses, but most of their ideas are snubbed due to a lack of funding.
3. **PriyadarshaniZanjurne (2018)** To evaluate the general expansion and advancements in India's MSMEs. The second goal is to identify the main obstacles that the MSMEs sector faces, as well as to research the potential for MSMEs in the future. Examining government initiatives to revitalize the MSMEs sector is the third goal. Inadequate infrastructure: MSME development is accelerating, yet infrastructure resources are scarce. Micro, small, and medium-sized businesses support India's economic growth in a number of ways, including by creating jobs in both rural and urban areas and by offering reasonably priced goods and services.
4. **M. Alaguraja (2020)** To find key challenges faced by the Micro, Small & Medium Enterprises as Well as Also to Study Future Prospects of Medium Small Micro Enterprises. Problems Faced by Msme. Absence Of Adequate Credit from Banks, Poor Infrastructure. Future Prospects of Msme Employment Generation. Indian MSMEs currently have a \$5 billion market value. According to market value estimates, the industry contributes around 45% of the nation's industrial production, 40% of all exports, 45% of industrial units, 42 million jobs, and over 8,000 items to the Indian economy.

5. **Rakesh Rathore and Aditi Mathur (20181)** To examine the current state of micro, small, and medium-sized businesses in India; 2) To emphasize the function, opportunities, and limitations of them. A major pillar of the Indian economy, the micro, small, and medium-sized business sector has a documented net worth contribution to the country's economy and helps to lessen economic inequality between regions.

MSME:

Micro, small, and medium-sized businesses, or MSMEs, are essential to India's economic development since they significantly boost GDP, exports, and employment. The significance of MSME classification criteria has been acknowledged by the government, which has regularly updated them to better represent the evolving business landscape and provide entrepreneurs with crucial benefits such loans, subsidies, and tax incentives. In the Union Budget 2025, Finance Minister Nirmala Sitharaman proposed a major change to the New MSME categorization that quadrupled the turnover restrictions and increased the investment cap by 2.5 times. On April 1, 2025, the revised MSME requirements may go into effect.

PROBLEMS FACED BY MSMES:

1. Funding for small businesses in India

For small businesses, especially Micro, Small, and Medium-Sized Enterprises (MSMEs), obtaining funding is a major obstacle in India. Because of their strict eligibility requirements, expensive collateral requirements, or challenging application processes, many MSMEs are unable to obtain formal loans from conventional banks. The intricacy of the issue is exacerbated by market volatility, a dearth of government support, and the low financial literacy of most small company owners. Particularly in rural areas, the "digital divide" makes the issue worse. Simplifying loan applications, encouraging financial literacy in training, and reducing fines for collateral requirements can all help to tackle these issues. Lowering the minimal requirements would also contribute to the development of an environment that is friendly to Indian SMEs.

2. MSME Challenges

MSMEs frequently face difficulties obtaining the right kind of funding for their operations and expansion. Traditional banks and other financial institutions may have severe requirements for obtaining financial support, which most small firms are unable to satisfy. MSMEs find it difficult to navigate India's complex regulatory landscape. Because the standards to comply differ by industry and area, it may be quite difficult.

3. Obstacles for Small Business Growth in India

India's growing entrepreneurial spirit has resulted in a flourishing small company environment that contributes significantly to economic progress. But despite the promise of innovation and economic success that these companies embody, they face many challenges as they expand. This overview discusses the several obstacles that Indian small

enterprises must overcome in order to grow, ranging from infrastructural issues and market competitiveness to financial limitations and regulatory concerns. In order to make an educated choice regarding supporting small enterprises in the evolving Indian economic climate, policymakers, entrepreneurs, and stakeholders must be aware of these challenges.

Research Methodology

This study uses a quantitative research design to analyze the differences in perceived challenges faced by MSMEs. The challenges were measured using a structured questionnaire with items rated on a Likert scale, enabling the quantification of attitudes and perceptions. The study involved a sample of 100 MSME respondents. The sample included owners, managers, and employees from various MSME sectors to capture diverse perspectives.

Data Analysis and Interpretation

Table 1: Lack of adoptions

	Sum of square	df	Mean square	F	Sig
Between Groups	.933	2	.467	4.900	0.047
Within the groups	.667	7	.095		
Total	1.600	9			

The one-way ANOVA resulted in a p-value of 0.047, which is less than the commonly used significance level of 0.05. This indicates that there is a statistically significant difference among the group means. In other words, we reject the null hypothesis that all group means are equal and

conclude that at least one group mean differs significantly from the others. However, this result does not specify which groups are different; further post-hoc analysis would be required to identify the specific group differences.

Table 2: Investment of Technology

	Sum of square	df	Mean square	F	Sig
Between Groups	15.198	4	5.063	3.304	.041
Within the groups	30.645	20	1.532		
Total	45.843	24			

The one-way ANOVA produced a p-value of 0.041, which is less than the standard significance level of

0.05. This suggests that there is a statistically significant difference among the group means.

Therefore, we reject the null hypothesis that all group means are equal and conclude that at least one group mean is significantly different from the others. However, this result does not indicate which specific groups differ, so a post-hoc test would be necessary to determine where the differences lie.

Findings

- 1. Limited Access to Finance:** A lack of collateral, a bad credit history, or insufficient financial documents make it difficult for many MSMEs to get loans.
- 2. Lack of Technological Adoption:** Many MSMEs still rely on antiquated technology, which lowers their competitiveness and efficiency.
- 3. Regulatory and Compliance Burden:** Time-consuming and intricate regulatory procedures raise operating expenses and deter formalization.
- 4. Marketing and Market Access Problems:** MSMEs frequently struggle to compete in larger markets, have a restricted reach, and lack branding strategy.
- 5. Skilled Manpower Shortage:** MSMEs find it challenging to grow and preserve product quality due to a discernible shortage of skilled workers.
- 6. Effect of Global Competition:** MSMEs are under more pressure to adhere to international standards as a result of their exposure to worldwide markets, particularly since liberalization.

Suggestions

- 1. Make it easier to get credit:** Support easier lending processes, extend credit guarantee programs, and promote fintech solutions that are intended for small and medium-sized businesses.
- 2. Encourage Digital and Technological Advancement:** Offer tax breaks or subsidies to encourage the use of new technologies, as well as instruction in digital tools.
- 3. Simplify Regulatory Frameworks:** Lower bureaucratic barriers for MSMEs and implement single-window clearance procedures.
- 4. Encourage Capacity Building:** Plan frequent training and upskilling initiatives, particularly in management, quality assurance, and digital literacy.
- 5. Improve Market Access:** Make it easier for

MSME involvement in international supply chains, trade shows, and e-commerce sites.

6. Strengthen Infrastructure and Clusters: To lower operating costs and boost production, create industrial parks and clusters with shared amenities.

Conclusion

The sector of Micro, Small, and Medium-Sized Enterprises (MSMEs) is essential to innovation, job creation, and economic growth. MSMEs confront many obstacles that restrict their ability to grow and remain sustainable, despite their importance. Lack of competent labor, obsolete technology, and restricted financial access are major problems. Their capacity to formalize and grow is further impeded by regulatory complexity and compliance burdens. Market access, branding, and competing with larger or foreign companies are challenges for many MSMEs. In both domestic and international markets, these difficulties lower their productivity and competitiveness. To build a more encouraging ecosystem, cooperation between the public and private sectors is crucial. Prioritizing digital transformation, improved access to credit, and skill development is necessary.

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