

An Empirical Study of Factors which Affect the Growth and Development of MSMEs in India

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ABSTRACT

Micro, Small and Medium Enterprises (MSMEs) are recognized to be the backbone of any growing economy. It is not exceptional to India; it has the necessity to consider MSMEs for its growth and development. The main objective of this study is to find out the factor influencing the growth and development of MSMEs in India. Hence this paper used the survey (questionnaire) method for the purpose of obtaining extensive industrial and geographical coverage. The questionnaire was developed and sent to 300 participants. The sample was chosen through simple random technique from probability sampling technique. Later, descriptive and inferential statistics were carried out. The findings of the study revealed that entrepreneurship skills, technology up-gradation, product diversification, quality control, and competitive marketing are the major factors that affect the growth and development of the MSMEs.

Keywords: Entrepreneurship skills, Technology up-gradation, Product diversification, Quality control, and Competitive Marketing.

INTRODUCTION:

The enterprises that have developing significance and involve in the progress of developing nations through directing economic growth and offering employment is called the Micro, Small and Medium Enterprises (MSMEs). This field is the major contributor in the evolution to the process of creativity, market economy, economic competitiveness, fostering development of technology, aspects of social growth and organization changes and innovation, income generation and employment creation (Ahmad et al., 2010). It is expected proposal that the MSMEs are above 95 percent of enterprise across the globe accounting nearly 60 percent of private-sector employment. There is a particular act in India accountable for MSMEs development and promotion i.e. MSME development Act 2006 which was commenced from 02, Oct 2006. Under the MSME ministry, the office of development commissioner serves as nodal agency (Subala, 2017). It helps in distribution and marketing, exporting promotion, technology transfer, joint ventures and in other needed fields. The act of MSME extensively characterizes the enterprises into services and manufacturing and describes the investment did by them in machinery, equipment, and plant as follows:

Table 1: India's MSMEs definition

Description	Manufacturing enterprises investment in Plant and Machinery INR	Service enterprises investment in equipment INR
Micro Enterprises	Up to Rs. 25 Lakh	Up to Rs. 10 Lakh
Small enterprises	Above Rs. 25 Lakh and up to Rs.5 Crore	Above Rs.10 lakh and up to Rs. 2 crore
Medium enterprises	Above Rs. 5 crore and up to Rs. 10 crore	Above Rs. 2 crores and up to Rs. 5 crore

Source: Small and Medium Business Development Chamber of India (Subala, 2017)

SMEs are affected by various factors. The SMEs experience high competition from greatly recognized companies however defined that the SMEs get more from their superior ability and innovation for personalizing the products in order to get competitive benefit more than their competitors (Sausser, 2005). Zindiye (2008) did empirical analysis on factors that influence the medium and small enterprise performance in the manufacturing field of Harare at Zimbabwe. It is identified by the study that the greater inflation rate and other economic aspects like interest rate, exchange rate and lack of foreign currency have negative impact on SMEs' performance. It has been examined by Kazemy et al. (2011) about the factors that are effectual on the SMEs' existence with the help of a case study of Iran. The outcomes represented that the financial, human and marketing factors were effectual on the SMEs' existence in the study area.

It is proved from the given discussion that a decent amount of studies have examined the factors that influence the MSMEs performance. But the performed study did not target the Indian MSMEs' development and growth. Using those proofs from literature, the present study aims to examine the factor that influences the MSMEs progress in India. Hence the following objective was framed;

- To identify the factors influencing the growth and development of MSMEs in India

REVIEW OF LITERATURE:

This section discusses the different factors that influence the growth and development of MSMEs in general and in specific to India. For example, the study by Soini and Veseli (2011) research shows that Kosovar SMEs' development is influenced by any number of major factors. The significant factors include lack of access to finance, lack of skilled labor, competition, globalization, corruption, regulations, and law, low investment in marketing, innovation and technology, and management competence. Similarly, Fouad (2013) found that SMEs in the manufacturing field experience lack of managerial skills even today. The specified outcome confirms the following hypothesis, poor management skills like financial management, marketing management, production management, general management, and human resources cause SMEs' poor performance in Cairo's manufacturing field at Egypt. Moreover the insufficient skilled human resource causes the SMEs to perform badly in Cairo's manufacturing field at Egypt. Lema (2013) also represented the major factors that influence the SMEs' performance such as business attributes (SMEs age), demographic structure (SMEs manager and owner's education level and age), marketing strategy, and capital structure (capital size and source of capital). Legal structure and sex also do not have any major contribution to the performance of the SMEs. Kusi et al. (2015) study show that the female and youth operators who have low education dominate the MSMEs. More revelation is that MSMEs mostly have inadequate qualified personnel; generally self-financed and have poor access towards credit. Another study by Ombongi and Long (2018) declared that the SMEs are directly associated with the financial performance and other independent variables like bank credit, GDP, technological costs, employee costs, and development in number of SMEs. However, these studies belong to developing countries in general not specific to India.

In India, the study of Muthini (2015) found that the women-owned businesses are inexplicably MSMEs will not establish their entire potential. This shows the lost chance for the financial institution and this further has adverse effects for the entire private sector. The institutional assistance for the women-owned business is constrained to non-profits which offer funding chances and networking. But such females experience considerable cultural obstacles like deficiencies and patriarchy in the skills of enterprises. However, the study by Sitharam and Hoque (2016) showed that technological development might enhance business performance. Concerning with challenge, many participants considered competition as main challenge. Nearly every participant showed that corruption and crime that influence the performance of the business. The competition was the main factor within the determined external and internal factors showed a major relation to the SMEs' performance. The outcome of Wang (2016) reveals that the SMEs observe access to finance as the major barrier that limits the development in developing economies. The major determinants within the attributes of the company are development, size, and age of the company and also company's ownership. The latter- the state's role in financing SMEs – is specifically interesting. The analysis was also done on external causes for dilemma of finance. It is represented that the major obstacle for external financing is insufficient consultant help and high borrowing costs. Amaradiwakara and Gunatilake (2017) study showed that SMEs' development is limited by aspects such as inadequate access towards latest technology, regulations implemented by government and financial inadequacy. In addition, it was shown that SMEs' development is directly influenced by the education level of the enterprise owner. Behera et al. (2018) find out the factors limiting the MSMEs existence and growth in Odisha. The MSMEs units are the dependent variable and the number of employees and capital investments are the independent variables. The outcome of the research represents that the MSMEs units are highly affected

by the capital investment compare to the number of employee. These are all the studies highlight the different factors that influence the growth and development of MSMEs in India. To our knowledge, there is very limited research that focuses on this concept in India. Hence this present paper is unique to future researchers who prefer to research on MSMEs growth and development in India.

RESEARCH METHODOLOGY:

Research Design:

The survey method was utilized in this paper since the objective was to get extensive industrial and geographical coverage. The most suitable research design for this study is explanatory survey research. Since the study aimed to explain the different factors that impact the growth and development of MSMEs in India.

Sampling technique:

The sample was chosen through simple random technique from the probability sampling technique.

Method of data collection: Primary data collection survey technique through questionnaire was used to gather the primary data. E-mails were used to send the questionnaire for MSMEs participants. Different articles, websites, books, and journals, etc. were used to gather secondary data. It has been utilized for investigating the definition of the conceptual framework.

Sample Size:

300 participants were the sample size chosen for the study.

Statistical Tools:

Two tools were utilized for examining the research which is five-point Likert scale and factor analysis methods.

DATA ANALYSIS:

Table 2: Relationship between Entrepreneurship skills and Growth & Development

	Growth and Development	Entrepreneurship skills
Growth and Development	1	.130*
Entrepreneurship skills	.130*	1
**. Correlation is significant at the 0.01 level (2-tailed).		

Table 2 displays the relationship between entrepreneurship skills and growth and development. The correlation value of Growth and Development and Entrepreneurship skills was 0.130, which shows that the two variables were reasonably associated with each other and the significance level of p-value = 0.01 indicates that the relationship is significant.

Table 3: Relationship between Technology up-gradation and Growth & Development

	Growth and Development	Technology up-gradation
Growth and Development	1	.240**
Technology up-gradation	.240**	1

Table 3 shows the relationship between technology up-gradation and growth and development. The correlation value of Growth and Development and Technology up-gradation was 0.240, which represents that the two variables were moderately linked with each other and the significance level of p-value = 0.01 shows that the association is significant.

Table 4: Relationship between Product diversification and Growth & Development

	Growth and Development	Product diversification
Growth and Development	1	.037
Product diversification	.037	1

Table 4 indicates the relationship between product diversification and growth and development. The correlation value of Growth and Development and Product diversification was 0.37, which indicates that the two variables were discreetly associated with each other and the significance level of p-value = 0.01 shows that the relationship is significant.

Table 5: Relationship between Quality control and Growth & Development

	Growth and Development	Quality control
Growth and Development	1	.032
Quality control	.032	1

Table 5 represents the relationship between quality control and growth and development. The correlation value of Growth and Development and Quality control was 0.37, which indicates that the two variables were reasonably correlated with each other and the significance level of p-value = 0.01 presents that the correlation is significant.

Table 6: Relationship between Competitive Marketing and Growth & Development

	Growth and Development	Competitive Marketing
Growth and Development	1	.293**
Competitive Marketing	.293**	1
** . Correlation is significant at the 0.01 level (2-tailed).		

Table 6 represents the relationship between competitive marketing and growth and development. The correlation value of Growth and Development and Competitive Marketing was 0.37, which shows that both of the variables were moderately interrelated with each other and the significance level of p-value = 0.01 represents that the interrelation is significant.

Table 7: Chi-Square Test between Entrepreneurship skills, and Growth & Development

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	842.066 ^a	288	.000
Likelihood Ratio	577.556	288	.000
Linear-by-Linear Association	5.052	1	.025
N of Valid Cases	300		
a. 307 cells (95.0%) have expected count less than 5. The minimum expected count is .00.			

Table 7 displayed the Chi-square value of $\chi^2 = 842.066$ at a 0.000 significance level the evaluated statistic $\chi^2 = 842.066$ was identified to be higher than the tabled critical value of $\chi^2 = 577.556$. Statistically, it can be understood that there was a link between entrepreneurship skills and growth and development at $\alpha = .00$. Therefore the outcome showed that there is a link among entrepreneurship skills and growth and development.

Table 8: Chi-Square Test between Technology up-gradation, and Growth & Development

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	722.050 ^a	162	.000
Likelihood Ratio	389.474	162	.000
Linear-by-Linear Association	17.206	1	.000
N of Valid Cases	300		
a. 171 cells (90.0%) have expected count less than 5. The minimum expected count is .00.			

Table 8 showed the value of Chi-square of $\chi^2 = 722.050$ at a significance level of .000 the calculated statistic $\chi^2 = 722.050$ was recognized to be greater than the tabled critical value of $\chi^2 = 389.474$. It can be further inferred that there was a correlation between technology up-gradation and growth and development at $\alpha = .00$. Therefore the result represented that there is a correlation within technology up-gradation and growth and development.

Table 9: Chi-Square Test between Product diversification, and Growth & Development

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	817.797 ^a	126	.000
Likelihood Ratio	459.997	126	.000
Linear-by-Linear Association	.404	1	.525
N of Valid Cases	300		
a. 129 cells (84.9%) have expected count less than 5. The minimum expected count is .00.			

Table 9 displayed the Chi-square value of $\chi^2 = 817.797^a$ at significance level of .000 the estimated statistic $\chi^2 = 817.797^a$ was found to be higher than the tabled critical value of $\chi^2 = 459.997$. Statistically, it can be understood that there was an interconnection between product diversification and growth and development at $\alpha = .00$. Hence the outcome represented that there is an interconnection between product diversification and growth and development.

Table 10: Chi-Square Test between Quality control, and Growth & Development

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	451.528 ^a	72	.000
Likelihood Ratio	420.457	72	.000
Linear-by-Linear Association	.313	1	.576
N of Valid Cases	300		
a. 75 cells (78.9%) have expected count less than 5. The minimum expected count is .08.			

Table 10 showed the Chi-square value of $\chi^2 = 451.528$ at .000 significance level the assessed statistic $\chi^2 = 451.528$ was identified to be greater than the tabled critical value of $\chi^2 = 420.457$. It can statistically be inferred that there was an interrelation between quality control and growth and development at $\alpha = .00$. Thus the result indicated that there is an interrelation among quality control and growth and development.

Table 11: Chi-Square Test between Competitive Marketing, and Growth & Development

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	1291.694 ^a	216	.000
Likelihood Ratio	650.909	216	.000
Linear-by-Linear Association	25.602	1	.000
N of Valid Cases	300		
a. 230 cells (93.1%) have expected count less than 5. The minimum expected count is .00.			

Table 11 represented the Chi-square value of $\chi^2 = 1291.694$ at a significance level of .000 the estimated statistic $\chi^2 = 1291.694$ was found to be higher than the tabled critical value of $\chi^2 = 650.909$. It can be statistically understood that there was a relationship between competitive marketing and growth and development at $\alpha = .00$. Therefore, the outcome exposed that there is a relationship between competitive marketing radiation and growth and development.

DISCUSSION:

It has been discussed that the overall objective of the present study is to find out the important factors which are affecting the growth and development of MSMEs in India. The survey technique (questionnaire) was used through simple random sampling. 300 participants were the sample size chosen for the study. From the regression and correlation analysis of the study, it is found that factors like entrepreneurship skills, technology up-gradation, product diversification, quality control, and competitive marketing are significant factors that affect the growth and development of the MSMEs. In line with these findings, Soini and Veseli (2011) research shows that Kosovar SMEs' development is influenced by much number of major factors. The significant factors include lack of access to finance, lack of skilled labor, competition, globalization, corruption, regulations, and law, low investment in marketing, innovation and technology, and management competence. Similar to the outcomes of this study, the researcher of Fouad (2013) found that SMEs in the manufacturing field experience lack of managerial skills even today. The specified outcome confirms the following hypothesis, poor management skills like financial management, marketing management, production management, general management, and human resources cause SME's poor performance in Cairo's manufacturing field in Egypt. Moreover the insufficient skilled human resource causes the SMEs to perform badly in Cairo's manufacturing field at Egypt. Ndege, (2015) study represented that the reliability in medium and small-sized enterprises at Vaal Triangle area was affected by three factors such as inadequate training opportunities, lack of entrepreneurial skills and complication in securing loans in reducing order of strength. In consistence with these findings, Abdissa and Fitwi, (2016) specified major problems and factors that constrain the growth and success of the small companies are competition, technological barrier, corruption, government policy, in access to funding/finances, unfavorable economic factors and bureaucratic processes. Bouazza et al., (2015) research show the similar findings in additional variables that the SMEs development at Algeria is offered by some correlated factors involving business environmental factors which goes beyond the internal and control aspects of SMES. The external factors comprises of regulatory and legal framework, human resource capacities, and access towards external financing. The internal factors include management capacities, entrepreneurial attributes, technological capacities and marketing skills.

CONCLUSION:

From the study, it can be concluded that the small, medium and micro industries are facing various issues because of factors like Issues of innovations & entrepreneurship, Entrepreneurship skills, Technology up-gradation, Product diversification, Quality control, and Competitive Marketing. Therefore MSMEs need to consider these factors and take initiatives towards it. From the study it is shown that there is a vast scope to widen the MSMEs in future.

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