

SMALL AND MEDIUM ENTERPRISES (SMES): CHALLENGES, OPPORTUNITIES AND STRATEGIES

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Abstract:

Small and Medium Enterprises (SMEs) plays very important role for country's economic growth. It acts an engine not only in India but all over the world. They account for 80% of global economic growth. Market conditions have dramatically changed for Indian SMEs after economic reforms. SMEs are regularly facing new challenges in terms of cost, quality, delivery, flexibility and human resource development for their survival and growth. In the context of a dynamic market scenario, they have to formulate their strategies for developing various capabilities and competencies to satisfy their domestic as well as global customers. For long-term competitiveness, SMEs have to focus on all aspects of organisational functions such as assets, strategy development, processes and their performance. SMEs play an important role in an economy, employing vast numbers of people and helping to shape innovation. Government regularly offers incentives, including favourable tax treatment and better access to loans, to help keep SMEs in business.

Key Words: *Economic reforms, Competitiveness, Strategy development.*

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Introduction:

The term “small and medium enterprises” (SMEs) as a synonym for “small and medium-sized enterprises”. However, there is no globally standardized definition of the term. The most common classifications of an enterprise as an SME are based on a financial measure and/or the number of employees. Besides, even the same country may have different definitions of SME, depending on the sectorial industry. For example, in the USA, a “small enterprise” in the “Agriculture, Forestry, Fishing, and Hunting” sector is based on annual income for all subsectors except for the logging subsector. In the logging subsector, a “small enterprise” is an enterprise with less than 500 employees. For the “small enterprises” defined by the annual income in this sector, the limit value varies from 1 million to 30 million dollars, depending on their subsectors.⁽¹⁾ This definition difference may imply different results interpretations, depending on the sectorial industry.

Another example is Brazil and Chile, South American countries. In Brazil, SMEs must have from 20 to 249 permanent employees. However, there is also another definition of SMEs based on the annual income criterion according to the Statute of Micro and Small Enterprises in Brazil. In this case, SMEs have an annual income from 360,000 BRL (Brazilian currency) up to 3,600,000 BRL, except for SMEs in the banking sector that follow a different definition^[2]. It is important to highlight that there is no inflation correction in this definition. In Chile, an SME is defined as “an enterprise with permanent 10 to 199 workers” or “an enterprise whose annual income from sales and services and other business activities is greater than 2400 UF (Chilean currency, automatically

inflation corrected), but less than 100,000 UF in the last calendar year”^[3]. Also, some countries consider the number of temporary employees in their definition of SME, such as Japan^[4].

In summary, the definitions based on the number of employees are usually not the same in terms of the number and the kind of labor relations to consider. Besides, the definition based on financial terms is usually determined by local law, established in terms of a local currency value at the date of the law approval, without inflationary considerations. Hence, to be comparable definitions from different countries, it may be necessary to correct inflation, convert currency, and make the definitions represent similar economic importance to each analyzed economy.

Challenges Faced by SMES in India:

Small and medium-sized enterprises, or SMEs, play a significant role in the global economic landscape. These organisations serve as pivotal contributors that create jobs, foster innovation and drive economic growth. However, if you're the owner of a small or medium-sized business, you'll also be well aware of the many challenges for SMEs, which can impede growth and expansion. This is particularly the case in the current economic environment, characterised by heightened inflation and interest rates, supply chain disruption and geopolitical challenges. Here, we take a deeper dive into the top 10 issues facing SMEs in 2023.

1. Access to capital

One of the biggest challenges for SMEs is accessing capital. This is particularly the case for smaller businesses, with banks and other financial institutions often adopting a cautious approach to lending these businesses money, driven by reservations about their size and risk profile. This can make it challenging for small businesses to invest in new equipment, hire employees or expand their operations and means shareholders are often required to use their own assets as security for any borrowing.

2. Cash flow management

Cash flow management is crucial for SMEs. If you're a business owner, you'll need ensure your business has adequate money to cover its expenses and invest in growth. Preparing a budget and forecasting cashflows is key and should assist you with planning. Late payments from customers, unexpected expenses and fluctuations in revenue can all impact on your cash flow. This is exacerbated when inflation and price pressures affect your key inputs.

3. Competition

SMEs face intense competition from other businesses. Competing with larger companies can be particularly challenging, as they often have more resources and established brands. As the owner or manager of an SME business, you'll need to find ways to differentiate your business and establish a foothold in the market.

4. Talent management

SMEs often have limited resources and significant competition from larger organisations, making the hiring and retention of skilled employees an uphill task. It can be challenging for you to offer competitive salaries and benefits compared with these organisations. Instead, identify your business's strengths, particularly those that benefit your people and potential employees, and focus on these strengths in your hiring and

retention strategies. For example, if your business has a great culture, you could use this as a focal point in your job ads and could provide testimonials from staff on your social media channels.

5. **Regulatory compliance**

SMEs must comply with and navigate various regulations and laws. This can be expensive and time-consuming as you'll need to ensure you're meeting tax and employment regulations. You also need to comply with any industry-specific regulations. To streamline the process and ensure compliance, it's wise to engage a professional such as an accountant or a lawyer to assist.

6. **Digital transformation**

Digital transformation can be one of the key challenges for SMEs, particularly if they lack the necessary resources and expertise SMEs must adapt to digital technologies to stay competitive. Exploring the implementation of new technologies like cloud computing or e-commerce can help you to reach new customers and increase revenue. Moreover, automation can in some cases increase the speed and efficiency of your operations. Treat digital transformation as an opportunity rather than a challenge.

7. **Marketing and customer acquisition**

SMEs need to invest in marketing and customer acquisition to attract and retain customers. The key is focusing on how you can develop a strong brand and overall marketing strategy. This could mean investing in external help to reach new customers and build your brand.

8. **Managing growth**

Rapid growth can be a double-edged sword for SMEs, bringing both new opportunities and challenges. Managing cash flow, hiring new employees and scaling operations can all be challenging, so it's imperative you plan for growth and ensure you have the resources to navigate this growth effectively.

9. **Cybersecurity**

Like all businesses, SMEs are vulnerable to cyber threats. However, many lack the resources and expertise to implement effective security measures. To protect your data and systems from cyber-attacks, hacking and viruses, you need to invest in cybersecurity services or at the very least, appropriate level security software on any devices connected to the internet.

10. **Economic uncertainty**

Recent economic volatility and uncertainty has impacted heavily on SMEs, making it more difficult than usual to anticipate changes in consumer demand and supply chain disruptions. This highlights the need for you to prepare for economic uncertainty. Strong contingency planning will assist you to weather any downturns.

Opportunities of SME:

India is the largest SME market in the world and contributes nearly a trillion dollars to the economy. It has contributed around 36% of India's total manufacturing output, and the sector is expected to contribute over \$2 trillion to the Indian economy and create 50 million additional jobs by 2024. Small and Medium Enterprises (SMEs) are the heartbeat of Indian economy and one of the key drivers of the

country's industry sector. Not only do they contribute one-third to the Gross Domestic Product (GDP) of the country, but they are also the key providers of employment to a large segment of the population, particularly among the non-formal sector. They contribute significantly to the socio-economic development of the country by providing job opportunities to the economically challenged segments of the society.

In the past few decades, the sector has become one of the most active and dynamic in India. It is actively expanding its sphere of influence across numerous economic sectors, creating and providing a wide variety of goods and services to satisfy domestic and international market demands.

Employment opportunities:

With the SMEs and manufacturing sector contributing significantly to the GDP of the country, there is a potential to increase their contribution to employment as well to over 50% over the next decade. It is also vital for informal SMEs that are not registered to be made part of the formal SME ecosystem. The growth incentives in the form of privileges and direct benefits for SMEs will encourage registration and participation in the growth opportunity. Typically, the SME and manufacturing sectors can provide larger employment opportunities at a comparatively lower capital cost, especially in the rural and remote areas, by becoming a part of the industrial ecosystem and act as ancillary units for large businesses to support the system in growth and development. Our country needs to create 10 million to 15 million job opportunities per year over the next decade to provide gainful employment to its population. SME and manufacturing sectors can contribute significantly to employment generation and the development of the Indian economy. The sector is also one of the key drivers for India's transition from an agrarian to an industrialised economy.

These sectors account for a large share of industrial units as well. It is also important to see that adequate growth is met across services, manufacturing, and agriculture segments to ensure holistic and stable overall economic growth. The current growth of SME and manufacturing sector is non-uniform and there exists a significant gap in growth of enterprises across services and manufacturing sectors. Additionally, steps to lower this gap must be taken for a balanced growth outlook.

Promotion of FDI:

India has one of the most liberalised foreign direct investment (FDI) policy across the globe, wherein 100% FDI under automatic route is permitted in many sectors. The FDI policy equally applies to the SME sector. To ensure that along with attracting investment, contemporary and cutting-edge technology is brought into the nation to boost overall productivity and competitiveness of the SME sector, a liberalised FDI policy should be followed. The investor friendly policy on FDI will attract multinational companies, which help in accelerating job creation, increase in tax revenue, and aggregate productivity across the country. Meanwhile, almost all emerging economies have policies and investment strategies aimed in part at recruiting large multinational companies to operate in their country, so that it will boost their economy. Additionally, these initiatives can result in a significant rise in the share of large firms in a short duration of time.

Market size of SMEs in India:

The SME sector, comprising of IT, manufacturing, infrastructure, service industry, food processing, packaging, and chemicals, has emerged as the most vibrant and dynamic engine of growth of Indian economy over the past few decades. The sector is considered as the backbone of the Indian economy, contributing to 45% of the industrial output and 40% of India's exports, employing 60 million people, creating 1.3 million jobs every year, and producing more than 9,000 quality products for Indian and international markets.

According to the MSME report of FY 21-22, there are 30 million SMEs in the country and 12 million more workforce are expected to join the SME sector in the next three years. Additionally, the sector is growing at a rate of 8% per year. With the Indian economy expected to touch \$5 trillion by 2025, and with revolutionary economic reforms kicking in, SMEs are expected to play a vital role in sectors like ecommerce, food processing, defence, pharma, security, etc.

Promoting SME clusters:

A cluster is usually a group of companies/enterprises located within an identifiable and as far as practicable, contiguous area and producing same/similar products/services. Our country should have policies to promote SME clusters in sectors such as automobiles, food processing, textiles, and pharma.

Keeping this in mind, the Centre has adopted the cluster development approach as a key strategy for increasing the productivity and competitiveness as well as capacity building of SMEs and their collectives in the country. Together, these clusters can function as a sizable company, taking advantage of scale and scope to boost output and employment inside their own clusters.

Schemes for SMES in India:

A few initiatives by the central government have given a boost to SMEs. Let's take a look at these schemes in detail:

1. Make in India:

The Central government's 'Make in India' initiative has played a key role in promoting businesses and pushing Indian SMEs to manufacture, develop, and assemble products made in the country.

2. Financial assistance to SMEs in the ZED Certification Scheme:

The scheme aims to instill Zero Defect & Zero Effect (ZED) principles in Indian SMEs' manufacturing. Under this scheme, the government grants up to an 80% subsidy to MSMEs.

3. The Prime Minister's Employment Generation Programme:

This scheme, set up by Khadi and Village Industries Commission (KVIC), was to finance SMEs.

4. Credit Guarantee Trust Fund for Micro & Small Enterprises (CGTMSE):

This scheme was implemented by the Centre to eradicate the financing issues faced by Indian SMEs and provides collateral-free loans to individual, micro and small enterprises.

5. Government Initiatives for Technology Advancement and Innovation:

The central government is trying to improve the conditions of MSMEs in India and has implemented several initiatives to help advance the technology and promote innovation among Indian SMEs. It also helps to

promote innovation, national manufacturing competitiveness programme (NMCP), rural industry & entrepreneurship (ASPIRE), etc.

These initiatives by the central government are helping SMEs overcome issues like financing, technology, etc.

Review of Literature: The biggest challenge for the SMEs is the low export subsidy provided by the Government of India to the small and medium scale industries as they are very important for an industry to compete with the pricing strategy of other big economies of the world. The competitors enjoy higher number of subsidies from their government than Indian SMEs. The second biggest stood is the infrastructure required for the development of SMEs in India. Infrastructure related problems like the factory set-up, capacity, remoteness to ports, accessibility to the export destination, lack of warehouses in the foreign markets, etc. pose serious challenge to the Indian small and medium sized exporters as compared to their competitors and the third being the market awareness and export promotion problems as they fell short of specific market information due to lack of export promotion and business development exercises. Export promotion is also minimal because of limited amount of funds and lack of information about the export markets (Ghouse 2017).

The challenges faced by SMEs in India are high cost of credit, difficulty of procurement of raw materials at a competitive price, inadequate infrastructural facilities, and lack of skilled manpower. The following case study also took into account a case on Indian Coir industry which proved that exports in global market has increased with time but the export earnings has decreased and the industry is facing a tough competition with the global players (especially China). To overcome such problems a technological upgradation is required and the promotion of Coir product is required in the global market which will differentiate Indian products with others (Mukherjee 2018).

Lack of accessibility to investment, technology equipment and know-how; non-conformity of standardization; lack of quality awareness and lack of mutual recognition schemes; product and service range and usage differences; language barriers and cultural differences; risks in selling abroad; competition of indigenous SMEs in foreign markets; ;inadequate behaviours of multinational companies against domestic SMEs; key challenges faced by the SMEs sector in India includes, lack of availability of adequate and timely credit; high cost of credit; collateral requirements; limited access to equity capital; procurement of raw material at a competitive cost; problems of storage, designing, packaging and product display, ;lack of access to global markets; inadequate infrastructure facilities, including power, water, roads, etc; low technology levels and lack of access to modern technology (Yadav and Tripathi 2018).

Research Methodology: The paper is based on the secondary data and the information is retrieved from the internet via journals, research papers and expert opinions on the same subject matter.

Objectives:

- i) To Study the concept of Small Medium Enterprises.
- ii) To study the opportunities of the programme for the people of the country
- iii) To study the various challenges faced by the Small Medium Enterprises.

Conclusion:

The challenges faced by SMEs in India are multifaceted, but they are not insurmountable. A collaborative effort between the government, financial institutions, industry associations, and SMEs themselves can help address these issues. By fostering an environment that promotes growth, innovation, and sustainability, India can empower its SME sector to reach new heights and make a significant contribution to the country's economic development.

In summary, supporting SMEs is not just an economic imperative but a means to empower millions of entrepreneurs and create a more inclusive and prosperous future for India.

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