
An Empirical Study of Business Challenges Encountered by Micro, Small and Medium Entrepreneurs

Ms. Rachna

Research Scholar, IMSAR, MDU, Haryana, India

Abstract

Micro, Small and Medium Enterprises play a very important role in economic development and growth of a country. The present study is based on the challenges faced by Micro, Small and Medium Enterprise (MSME) entrepreneurs. A random selection of 200 MSME entrepreneurs was made from four districts of Haryana with the help of list provided by Districts Industries Centres. The challenges were deeply examined and classified in to six major groups with the help of Principle Component Factors analysis. The six groups of challenges are Management related, Economic, Financial, Market Related, Formal and Personal.

Key words: Entrepreneurs, Challenges

Introduction

The growth and development of a country depends on the quantity and quality of productive assets available and how efficiently and effectively these are mobilized and utilized by the nation. The overall growth is achieved by the proper

investment of these assets in business processes. In fact, entrepreneurial activities leads to the judicious exploitation of the assets that are either being underutilized or immobilized so as to produce employment opportunities and thereby enhance income and output in an economy. Micro, small and medium enterprises are identified as a significant factor in determining the dynamics of an economy. The health of this sector is very important for the overall economic strength of an 85economy. The MSME sector has often been termed as the ‘engine of growth’ for developing countries (Ravi, S. 2009).The small enterprise sector has continued to contribute greatly in creating jobs in large scale and helped in reducing inter-regional and rural-urban disparities in growth (Das, K. 2008). There has been more written about the growth of this sector in recent years than any other sector. It is because of the significant contribution of this sector in economic development and employment generation, which attracted the attention of researchers and policy makers. This is therefore very interesting and important to study about the

challenges faced by MSME entrepreneurs. Therefore, an attempt was made to investigate various types of entrepreneurial challenges or a combination of these that have been faced by entrepreneurs in micro, small and medium sector.

Literature review

An entrepreneur is an individual who accepts challenging roles to meet their personal needs and to become economically independent (Darmanto, S. and Yuliari, G., 2016). In addition to motivation of entrepreneurs, another important dimension of entrepreneurship is the obstacles face by them while running their business. Entrepreneurs in developing countries face more monumental challenges as compared to those in developed nations (Chu H.M. et. al. 2011). The problems faced by entrepreneurs of these transition economies are related to finance, managerial efficiency and control, infrastructure, market, and work force etc. Some of the challenges related to finance and market have a direct impact on the business growth and its competitiveness. The related extent of these challenges as encountered by entrepreneurs of MSMEs differs according to the size of firm, location, and market situations (Bowen, M. et. al. 2010).

In general entrepreneurs face financial problems, particularly during the startup stages of their business (**Hassan, N.B. et. al., 2010**). All the business firms need funds in order to start and grow a business. Lack of access to finance or unavailability at times can be a challenge to business growth (**Cassar, G. 2004**). The problem related to “access to financial resources” is more severe in the case of women entrepreneurs operating in developing nations (**Shabbir, A. 1996**).

Unstable economic environment and other situation related to external market are some of the common problems faced by the entrepreneurs in developing countries (**Benzing et al., 2009**). The giant enterprises in large emerging economies floods the world with the low-priced products produced at large scale. The profit margins are slim and poses threats to the existing developing economies by making their product uncompetitive regarding price (**El-Khasawneh, B.S., 2012**). Price fluctuations and completion by other enterprise in the same line and competition from foreign firms are the most frequently mentioned barriers by the entrepreneurs (**Fumo, N.D. and Jabbour, C.J., 2011**). The problem of corruption arises due to the lack of the institutional regime. Because it leads to a weak legal system, resulting in

corruption and high crime rates (El-Khasawneh, B.S., 2012).

Methodology

The main objective of this study was to find out various challenges faced by MSME entrepreneurs.

Sample

The sample used in the present study consists of micro, small and medium entrepreneurs who have been running their business. A sample of

Table 1: The results of KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.616
Bartlett's Test of Sphericity	Approx. Chi-Square	3376.770
	Df	153
	Sig.	.000

Keiser-Meyer-Olkin, a measure of sampling adequacy was 0.616 showing that the sample size was adequate according to the number of statements and Bartlett's test of Sphericity was significant at 0.000. The Bartlett's test of Sphericity, it showed that these variables were highly correlated. In order to reduce data and to

200 entrepreneurs was randomly selected from the list provided by District Industries Centre (DIC) office from Jhajjar, Hisar, Panchkula and Rewari from Haryana.

Results and Discussions

The questionnaire was used to collect data on challenges faced by MSME entrepreneurs. The respondents gave their responses for challenges on five point Likert scale against various statements representing challenges.

form mutually exclusive groups having no correlation factor analysis was conducted. Factor analysis was again conducted on 25 variables representing challenges and six groups of variables were extracted as distinct factors explaining 68.88 percent of the total variance

Table 2: The Results of Principal Component Factor Analysis with Varimax Rotation, Factor Loadings and Variance explained for Challenges faced by Entrepreneurs

	Component						Communities
	1	2	3	4	5	6	
2. The labor turnover rate is high in my business	.865						.733
11. The employees are unreliable and undependable	.766						.721
6. Lack of networking has restricted the growth of business	.752						.672
3. The availability of skilled and professional workforce is limited	.685						.653
8. Customer complaints are negatively affecting my business	.606						.629
18. Inefficient management of working capital	.572						.598
15. Inability to maintain accounting records	.560						.569
19. The quality of output produced is low	.541						.530
14. Unavailability of raw material increases the lead time		.818					.727
16. The Corruption in the market is high		.788					.720
5. Many times it's difficult to compete with products from foreign firms		.631					.692
13. The transportation cost is high in this area		.621					.600

10. Unfavorable economic conditions such as inflation is limiting the business		.616					.556
21. Rapid and costly technological changes		.573					.536
4. The inadequate and untimely access to finance has been hindering the growth and expansion of enterprises			.786				.672
1. Lack of access to finance have been posing a major challenge			.743				.572
17. Problem in debt collection			.729				.521
20. The acquiring cost of infrastructure is very high			.652				.503
7. Too much of the competition in the market has been a major barrier to growth				.794			.691
12. Many times it very difficult to cope up with the low demand of products in the market				.736			.605
22. Lack of access to market related information is limiting the sales				.531			.558
9. The support from the government is insufficient					.618		.691
24. The business registration process is long and time consuming					.512		.625

23. Sometimes I find it difficult to balance time between family and business						.514	.598
25. Amount of time and energy required for my business is a challenge to me						.506	.535
Eigen values	7.8	5.7	2.5	1.4	1.3	1.1	
Percentage of Variance	12.792	12.712	11.742	11.648	10.130	9.860	

From the above given table 2 six factors were extracted. In the rotated factor matrix **factor 1** comprise of eight variables numbered as: 2, 3, 6, 8, 11, 15, 18 and 19 showing an Eigen value of 7.8 and 12.79 % of the variance. Top four variables in this factor which explained high factor loading were as: “The labor turnover rate is high in my business”, “The employees are unreliable and undependable”, “Lack of networking has been restricting the growth of business” and “The availability of skilled and professional workforce is limited”. Therefore, this factor was labelled as “**Management Related**” challenge. **Martin, G. and Staines, H.** in **2008** pointed out that lack of managerial experience and skills were the main reasons of failing of a firm. Moreover, **Herrington, M.**

and Wood, E. (2003) identified that lack of managerial skills were one of the most critical reasons for the new venture failure. Also, the inability to make adequate use of essential business and management practices are the reasons for arousal of critical management problems (**Richard, M., 2000**).

The second factor explored six variables: 5, 10, 13, 14, 16 and 20 with an Eigen value of 5.7 and variance of 12.71 %. The first variable was concerned with unavailability of raw material which further increases lead time. Second variable revealed the drawback of corruption in the market. Third variable indicated that many times it was difficult to compete with the products from foreign firms. The fourth variable draws the attention towards the high

transportation cost. Collectively, all of them were labelled as “**Economic**” The third factor identified four variables: 1, 4, 17 and 20 with an Eigen value of 2.5 and 11.74 % of the variance. The first variable expressed that the inadequate and untimely access to finance was hindering the growth and expansion of enterprises. The second variable unveiled that the lack of access to finance was hindering the growth of the business of MSME entrepreneurs. Third variable indicated that there was problem of debt collection. Last, the fourth variable draw attention towards the high acquiring cost of infrastructure. After pooling all these four variables they were named as “**Financial**” challenge Access to capital is one of the most critical impediments to the growth of business ventures (**Ramayah, T. &Harun, Z., 2005**) and its deficiency act as a hurdle for entrepreneurship development (**Robertson, M., Collins, A., Medeira, N. & Slater, J., 2003;Li, W., 2007**)

The fourth factor included three variables numbered as: 7, 12 and 22. They have an Eigen value of 1.4 with 11.64 % of variance. The first variable expressed that too much of the competition in the market has been a major barrier to growth. Second variable identified the difficulty in coping up with the low demand of products in the market. Also, the last variable,

i.e. lack of access to market related information, represented its impact on diminishing sales. Collectively, all of them were labelled as “**Market Related**” problem. Market related factors have a direct impact on the demand of goods and services and hence they determine the viability and performance of a firm

The fifth factor had taken two variables into account sequenced as 9 and 24 having an Eigen value of 1.3 and a variance of 10.13 %. The first variable described that the insufficient support from government was posing problems in business growth. Second variable expressed that business registration process was long and time consuming. These variables were clubbed as “**Formal**” business challenge. **Cetindamar (2005)** revealed that the entrepreneurs in developing countries face problems due to the reluctant attitude of public authorities and unstable government policies. Moreover, these bureaucratic hurdles and delays leads to the increase in the cost of doing business. (**Gray, K. R., Cooley, W., &Lutabingwa, J., 1997**).

The last and sixth factor comprises of two variables: 23 and 25 with an Eigen value of 1.1 and 9.86% of the variance. This factor revealed the challenges related to work life balance. The first variable intimated the problem of balancing the time between family and business. Second variable focused on the problem of the amount

of time and energy required for business is a challenge. The factor has given a name “Personal”.

Conclusion

In this study the challenges faced by Micro Small and Medium Enterprise entrepreneurs have been presented. These challenges were classified into six groups like management related, economic, financial, market related, formal and personal. The most important challenge was related to management related activities. Moreover, lack of managerial skills were one of the most critical reasons for the new venture failure. Also, the inability to make adequate use of essential business and management practices are the reasons for arousal of critical management problems. The second challenge was labelled as economic. This mainly represents the external financial conditions impacting the growth and survival of the business. These challenges should be properly managed so that entrepreneurial activities can be promoted as a means for creating growth and development. The increased knowledge of challenges faced by MSME entrepreneurs can be helpful in establishing appropriate policies around entrepreneurship by the government, employers associations and other agencies.

References

- [1] Benzing, C., & Chu, H. M. (2009). A comparison of the motivations of small business owners in Africa. *Journal of Small Business and Enterprise Development*, 16(1), 60 – 77.
- [2] Bowen, M., Morara, M. & Mureithi, S. (2009). Management of business challenges among Small and Micro enterprises in Nairobi-Kenya. *Kca Journal Of Business Management*, 2(1), 16-31.
- [3] Cassar, G. (2004). The financing of business start-ups. *Journal of Business Venture*, 19(2), 261-283.
- [4] Chu, H. M., Kara, O., Zhu X., & Gok, K. (2011). Chinese entrepreneur’s motivations, success factors, problems, and business-related stress. *Journal of Chinese Entrepreneurship*, 3(2), 84-111.
- [5] Cetindamar, D. (2005). Policy issues for Turkish entrepreneurs. *International Journal of Entrepreneurship and Innovation Management*, 5(3/4), 187-205.
- [6] Das, K. (2008). *SMEs in India: Issues and Possibilities in Times of Globalization*. Gujarat Institute of Development Research, India. Retrieved from http://www.eria.org/SMEs%20in%20India_Issues%20and%20Possibilities%20in%20Times%20of%20Globalisation.pdf
- [7] Darmanto, S. and Yuliari, G. (2016). Motivation, challenges and success factors of

woman entrepreneurs in Semarang. *I J A B E R*, 14(14), 10479-10492.

[8] El-Khasawneh, B.S. (2012). Challenges and remedies of manufacturing enterprises in developing countries. *Journal of Manufacturing Technology Management*, 23(3), 328-350.

[9] Fumo, N.D. & Jabbour, C.J. (2011). Barriers faced by MSEs: evidence from Mozambique. *Industrial Management & Data Systems*, 111(6), 849-868.

[10] Gray, K. R., Cooley, W., & Lutabingwa, J. (1997). Small scale manufacturing in Kenya. *Journal of Small Business Management*, 35(1), 66-72.

[11] Hassan, N. B., Yeow, J. A., Chin, S.T. & Mohd Rom, N.A. (2010). Financial constraints and opportunities of micro entrepreneurs: a theoretical framework. *International Conference on Business and Economics Research*, 1, 165-168.

[12] Herrington, M., Kew, J. & Kew, P. (2009). Global Entrepreneurship Monitor. Retrieved from

a. <http://www.gbs.nct.ac.za/gbswebb/userfiles/gemsouthafrica2000pdf>

[13] Martin, G. & Staines, H. (2008). Managerial competencies in small firm. Retrieved from

<http://www.emeraldinsight.com/insight/viewcontentitem.do?contenttype>

[14] Ravi, S. (2009). Entrepreneurship development in the micro small and medium enterprise sector in India, Retrieved from

a. http://www.blog.sobhimohanty.com/uploads/9/6/8/9/9689166/ravi_2009_entrepreneurship_in_msme_sector_india.pdf

[15] Ramayah, T. & Harun, Z. (2005). Entrepreneurial intention among the students of USM. *International Journal of Management and Entrepreneurship*. 1(1), 8-20.

[16] Richard, M. (2000). Why small businesses fail?. *CMA Management*, 74 (6), 12-14.

[17] Robertson, M., Collins, A., Medeira, N. & Slater, J. (2003). Barriers to start-up and their effects on aspirant entrepreneurs. *Education + Training*, 45(6), 308-16.

[18] Shabbir, A. & Gregorio, S. D. (1996). An examination of the relationship between womens personal goals and structural factors influencing their decision to start a business: The case of Pakistan. *Journal of Business Venturing*, 11(6), 507-529.