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SWOT ANALYSIS OF MICRO, SMALL AND MEDIUM ENTERPRISES IN RURAL SOCIETY: A STUDY CONDUCTED IN THE VELLORE DISTRICT OF TAMILNADU

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ABSTRACT

Micro, Small and Medium Enterprises (MSME) play vital role in the process of development. It generates employment at low cost and helps the society to move on the path of prosperity & growth. As more than 70% of Indians live in villages and as there is little scope for establishment of Large-scale industries in these areas, MSME is an important aspect with regard to development of rural areas. The State of Tamilnadu is one of the states of India filled with heavenly natural resources. The irony is that despite of being rich in natural resources particularly in rural areas, it is still one of the backward states in industrialization. Even though the State has huge potential for industrialization, especially for MSME sector, its potential has not been fully harnessed so far. Thus the present paper is an attempt towards finding out the District of Vellore. At the end, some suggestions by which the challenges of threats can be reduced are recommended.

KEY WORDS:

Micro, Small and Medium Enterprises (MSMEs), strength, weakness, opportunity, threat

INTRODUCTION

Sustainable development of any economy depends not only on large scale organized industries but also equally dependent on other employment generation avenues to utilize locally available natural and human resources. Micro, Small and Medium Enterprises (MSME) is one such sector. MSMEs have been globally considered as an engine of economic growth and as key instruments for promoting equitable development. The MSMEs constitute over 90% of total enterprises in most of the economies and are credited with generating the highest rates of employment growth. These not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large Industries but also help in industrialization of rural & backward areas, which in turn, reduces

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regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country. In India too, the MSMEs play a pivotal role in the overall industrial economy of the country. In recent years the MSME sector has consistently registered higher growth rate compared to the overall industrial sector. Among the States of India, Tamilnadu has been blessed abundantly with some important natural resources like, coal, iron ore, manganese ore, chromites, nickel, bauxite and fireclay to name a few. It also has large forest cover area and vast sea cost. Tamilnadu has a very long coast line of about 1076 km which is around 14.35 per cent of total coast line of our country. During the last one decade, to utilize these natural resources some of the large scale industries mainly in sector of steel, power and aluminum have been set up. The importance in utilization of local resources to generate employment and improve living standards of people, who are not employed in large industries, agriculture and services sector, Government of India and State Government of Tamilnadu have also started giving stress for the development MSMEs.

According to the Report of Reserve Bank of India, 2016, the contribution of services and industrial sector to the total GSDP of Tamilnadu are at 45% and 34%, respectively during 2015-16 which is more or less equal to that of all India level of 54% and 29%, respectively, during the same period. Tamilnadu is one of the top ten States in creation of job by MSME sector although it is positioned at 3rd in respect of number of MSME units set up as compared to other States.

Despite the high rate of achievements, there seems failure in sustainability of most of the MSMEs of the state, which suggests that these MSMEs are experiencing some major challenges of weaknesses and threats that are hindering their performance. It is against this background that it becomes pertinent for SWOT Analysis of Micro, Small and Medium Enterprises in the State of Tamilnadu. 13 coastal districts of Tamilnadu (Tiruvallur, Chennai, Kanchipuram, Villupuram, Cuddalore, Thiruvarur, Nagapattinam, Thanjavur, Pudukottai, Ramanathapuram, Thoothukudi, Tirunelveli and Kanyakumari) have huge potential for using the water bodies to make alternative destinations for activities like sea food processing, marine related activities have been interesting entrepreneurial activities for MSMEs. As more than 70% of people of this state live in villages, thus the study is emphasized on rural society.

OBJECTIVES OF THE STUDY

This study was conducted with the objective of:-

1. Assessing the potential strength of the MSME sector;
2. Examining the issues pertaining to various weaknesses affecting the sector;
3. Highlighting the opportunities vide policy interventions by the Government as well as RBI for its growth;
4. Analyzing the threats of the sector which occur regularly; and
5. Suggesting measures for improvement of the MSME sector, by limiting the threats and weaknesses

STUDY AREA AND METHODS

This study is conducted in the Vellore District i.e., nearest place in Chennai coastal district of Tamilnadu.

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of this district were taken as samples for the qualitative research on this topic. Data were collected randomly from the samples. The local language- Tamil was used for discussion. Secondary data were collected from published and unpublished reports, books, journals and electronic resources.

The Analysis of the data is done following SWOT analysis. SWOT analysis is a strategic method used to evaluate the Strengths, Weaknesses, Opportunities, and Threats involved in a project or in a business venture. It involves identifying the internal and external factors that are favorable and unfavorable to achieve that objective. In brief,

1. Strengths: are the characteristics of the business or team that give it an advantage over others in the industry.

2. Weaknesses: are characteristics that place the firm at a disadvantage relative to others.

3. Opportunities: are external chances to make greater sales or profits in the environment.

4. Threats: are external elements in the environment that could cause trouble for the business

FINDINGS OF THE STUDY

After discussion with the entrepreneurs of rural areas of Vellore district, it is found that there are some positive aspects along with some problems of these MSMEs, which can be presented through SWOT analysis as the following:

The points of STRENGTH for growth in the MSMEs sector are enormous due to the following factors:

- ✦ MSMEs can be started at a very low cost.
- ✦ Adapting to change is crucial in these sectors; not being tied to any bureaucratic inertia, it is typically easier to respond to the marketplace quickly.
- ✦ Good customer relation results in greater accountability and maturity. Customers who are treated like family are more likely to return to that business in the future.
- ✦ Independence to work for own firm is another advantage of these sectors.
- ✦ Ability to innovate and create new products and services more rapidly and creatively than larger companies that are delayed in bureaucracy.
- ✦ A small firm has also the ability to modify its products or services in response to unique customer needs. The average entrepreneur or manager of a small business knows his customer base far better than in a large company.
- ✦ Cater to customer needs. If a modification in the products or services offered or even the business's hours of operation would better serve the customers, it is possible for a small firm to make changes.
- ✦ The people involved – the entrepreneur, any partners, advisers, employees, or even family members – have a passionate, almost compulsive, desire to succeed. This makes them work harder and better.

WEAKNESSES

- ✦ It can be difficult to reach enough potential customers to establish a successful base of customers. Potential customers might be less likely to do business with a small business
- ✦ That does not offer a well known brand of products or services.
- ✦ One of the largest weaknesses for small business owners is to raise finance. Many business owners invest their own money at the start of a business or if the business falls upon hard times because institutional lenders like banks and government financial corporations are generally reluctant to

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advance money to these small units.

- ✦ Small business owner has to bear high cost of production, which acts as one of the weakness for the small businesses.
- ✦ Most of small scale businesses do not have skilled personnel. Due to which these businesses lack in identification of industrial projects for development consultancy and counseling services and providing industrial training and skill formation
- ✦ Small businesses do not use Information technology and its applications such as the designing of prototype machines for product identified according to country resources and requirements.
- ✦ Many times it becomes very difficult to obtain the permission of and license from, the Industrial Development of the state, local bodies etc.
- ✦ Marketing is one of the weaknesses for small businesses.

⊙ Besides these, the entrepreneurs face many problems in marketing due to

- ⊙ Lack of standardization
- ⊙ Poor designing
- ⊙ Poor quality
- ⊙ Lack of quality control
- ⊙ Lack of precision
- ⊙ Poor finish
- ⊙ Poor bargaining power
- ⊙ Lack of service after sales
- ⊙ Scale of production
- ⊙ Brand preferences
- ⊙ Distribution contacts
- ⊙ Lack of knowledge of marketing
- ⊙ Competitive marketing
- ⊙ Ignorance of potential market



OPPORTUNITIES

- ✦ Major Policy Initiatives by Government of Tamilnadu towards enhancing the opportunity for growth of MSMEs are:
 - ✦ Government of Tamilnadu formulated Tamilnadu Industrial Policy in March 2007 which aimed at reinforcing and further expanding for industrial promotion and investment facilitation in the State, including creation of an enabling environment.
 - ✦ In March 2006, Government of Tamilnadu announced the “Tamilnadu MSME Development Policy, 2006” to broad base the growth of MSMEs. The policy aimed at the development of infrastructure to support the sector, to facilitate the flow of credit (like Tamilnadu MSME Venture Capital Scheme), assistance to improve the marketing facilities, technology up gradation and sourcing of raw materials. The policy also emphasized on the rehabilitation and revival of sick units with enabling institutional arrangements. It also emphasized on single window mechanism, entrepreneurship development, skill development, and promotion of clusters etc., for the comprehensive development of the sector.
 - ✦ Government of Tamilnadu in February 2010 notified that Common Facility Centres (CFCs) set up by

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Special Purpose Vehicles (SPVs) of MSME clusters shall be entitled for allotment of land on free of cost basis at locations earmarked for the purpose by IDCO which shall be treated as the State Government's share.

✦ Government of Tamilnadu has issued guidelines (in 2013) for procurement of goods from local MSEs with a price preference of 10 per cent vis-à-vis local medium and large as well as outside industries. Local MSEs having ISO/ISI certifications are given additional 3 per cent price preference. It was also notified to undertake a comprehensive district wise drive for identification and rehabilitation of potentially viable units on a fast track mode.

✦ Recently, Government of Tamilnadu released Draft Industrial Policy 2014 with an objective of making Tamilnadu a favorable destination for the investors by providing infrastructure and institutional support and pre and post-production incentives. The policy has sought to provide institutional mechanism in the form of single window clearance, simplification and rationalization of regulatory mechanisms; financial support measures by means of incentives, interest subsidy at 7% per annum for term loans availed by MSEs, reimbursement of VAT for new units (for a period of five years), stamp duty exemption for land leased by Government / IDCO, certain exemption from payment of electricity duty, employment cost subsidy etc. This policy intends to encourage linkage between MSME and large industries and make focused efforts for development of ancillary and downstream industries.

Threats

⊙ Some of the threats related to MSMEs are:

⊙ Slow Payment :

⊙ While large corporations and banks have been fortified with ample low-cost cash to buy small businesses' products and services, they continue to pay slowly, bargain harder and demand more concessions from powerless small businesses who are selling their souls "where the money is."

⊙ New costs, taxes and compliance :

⊙ As social causes like sustainability, diversity, healthcare and fair taxation are being legislated by governments and lobbied into favorable terms for corporations, small business is getting choked. Now, the new costs, taxes and compliance rules are sapping the will of owners to believe that they should risk, invest and remain confident in their businesses.

⊙ "Approved" vendor programs force buying solely on price :

⊙ To shift responsibility and outsource their liability, corporations and governments are hiring third party sourcing companies whose objective is to reduce small business vendor power and commoditize their products and services.

Recommended Suggestions for Pushing the MSME Sector in rural Tamilnadu

⊙ Interventions by Government/ Regulators

⊙ With regard to Policy/Regulation

⊙ Single Window System for regulatory clearances for MSME is already in place which needs to be activated. It may be covered under Public Service Guarantee Act of the State Government which may help time bound clearance for the start up of the projects.

⊙ To address the issue of infrastructure in rural areas, State Government may contemplate creation of industrial estates and marketing hubs by using Government land in these districts to create a facilitator environment for encouraging MSME sector.

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- ⊙ As mandated in the Industrial Policy Resolution of Tamilnadu 2007, "Silpa Adalat" should meet every month and hear the grievances / complaints of investors and make its recommendation to the appropriate authorities for consideration and redressal of the grievances so as to make it more effective and dynamic.
- ⊙ The mandated 20 per cent procurement from MSME sector by PSUs / Government departments needs to be followed in letter and spirit and should be properly monitored.
- ⊙ A sub-limit fixing 50 percent procurement from MSMEs of the State and rest 50 percent from open market could be considered.
- ⊙ The State Government may issue an instruction to its PSUs to ensure that all dues have been paid to MSME entrepreneurs by them against receivables within specified time as per the existing rule before preparation of the final audit report of PSUs of the State.
- ⊙ Rationalization of the tax structure of the State will provide a level playing field to the local MSME entrepreneurs for marketing their products.

b. With regard to Infrastructure

- ✦ The State Government may improve capital investment in the State particularly for creation of infrastructures like road, rail and telecom networks, water-ways, uninterrupted power supply, last mile connectivity, dry and cold storage, processing units etc. district wise.
- ✦ Infrastructure should be developed with cluster based approach for comprehensive
- ✦ development of the MSME sector. A district based cluster model may be suitable in case of Tamilnadu keeping in view concentration of skills and products in specific area.

c. Skill Development and Capacity Building

- ✦ A district-wise system of periodical interaction between entrepreneurs (both existing and emerging), bankers and concerned Government officials to share developments in the sector may be put in place.
- ✦ Platform can be created for sharing of experience of successful rural entrepreneurs through Television or Radio.
- ✦ TV programmes can also broadcast for creating awareness and providing basic inputs to the upcoming entrepreneurs.
- ✦ Capacity building efforts like skill development, entrepreneur hand holding, market match making etc., may be made on a continuous basis to create demand for credit and enhance the credit absorption capacity.
- ✦ As a long term initiative, skill and entrepreneurship development programmes may be made a part of the school / college curriculum to develop future entrepreneurs.
- ✦ Interventions by Banks
- ✦ Appropriate awareness and training modules should be developed by banks to create a pool of work force to handle cases related to MSME sector.
- ✦ Acknowledgement of loan applications which is traceable for both online and offline applications and disposal of the same within stipulated time period may be strictly adhered to.
- ✦ Disbursement schedule should be in line with the requirement of the borrower and the repayment period should start only after the commencement of production and commensurate with cash flows

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- ✦ In case of seasonal units, a rational repayment schedule needs to be fixed by the banks.

CONCLUSION

SWOT analysis helps in assessment of the internal and external factors which is very important for all the organizations not only for Small Scale businesses but for large businesses as well. But as MSMEs are facing many problems due to globalization and are suffering from undue losses as compared to large businesses so SWOT analysis is important to make them understand their weaknesses in a better way and to make them use their strengths to stand in market and to make normal profits. Today's dynamic business environment is bringing many opportunities for business enterprises but with that it has introduced business's with greater threats, so in this study it has been tried to give every aspect related to MSMEs about their Strengths, weaknesses, opportunities and threats so that they can use it with greater benefits and can know their environment in better way. The MSME sector has made significant contribution towards employment generation and rural development in terms of manufacturing output. No doubt, to sustain the growth of MSMEs and ensure their continued contribution to national industrial production, economic growth and employment, both the Central and State governments have taken a number of initiatives to facilitate the MSMEs. But most of the clusters/ entrepreneurs are not aware of these benefits/ incentives. It is required to make them aware and inform these entrepreneurs so that they can get the incentives for their enterprises as provided by the government. It will definitely help them take initiatives for setting up MSME in achieving the objectives of growth with equity and inclusion to boost up the process of rural industrialization and also to help in poverty eradication and employment generation.

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