ABSTRACT

Small and medium enterprises account for a significant proportion in manufacturing, services, exports, and employment, and hence are major contributors to GDP. Considering the growth of SME sector in India, the Indian government implemented a lot of policies and also advised to public sector banks to achieve a minimum 20% growth yearly in financing SME units. But on the same time SME units are prone to various business risks due to which they fall sick or sometimes closed due to heavy losses or many of them becomes NPA in the accounts of the banks. So for the continuous growth of the unit and prevention of risks, it is very important for the entrepreneurs to know about the various risks involved as well have plans to fight them. Here the said research has been done to find out main areas of risk and what measures entrepreneurs are taking to be away from going in crises.

KEYWORDS-SME, RISK, BANKS, NPA, SICK SME

INTRODUCTION- Small and medium enterprises play an important role in the growth of economy of any country. It has an important part in developing and transition economies. It not only increases employment level of the country but on the same time have an important part in the production of the country. We can see it like-

Here in this graph we can easily see the growth in employment due to MSME sector in India- *

![Graph showing employment growth](image)

This graph itself shows the growth in gross output due to MSME sector- *

![Graph showing gross output growth](image)

Projected data for the years 2007-08 to 2011-12.

The definitions of MSME as per MSMED act 2006 are given here. Before this act services sector covered only for micro enterprises with business upto 10 Lacks and not for SME but with this act services start coming under SME. As per MSMED act 2006 the definitions are like-
In India the credit from banks grow from Rs.67000 crore in 2004-05 to Rs.135000 crore in 2009-10. The govt. also asked banks to open specialized sme branches to look after special needs of sme units and focus only on sme credit. The banks also targeted SME sector as it’s main market and increased it’s business in SME sector.

But besides growth in credit facility to SME sector bank has to keep watch on it’s financial health measured in terms of capital adequacy, profitability, asset quality and provisioning for the doubtful losses. So for this reason it has to analyze the SME unit which it want to credit in terms of it’s quality of management, experience of entrepreneurs, marketing activities of the unit, competition in the industry as well as government policies regarding the product of the unit. In absolute terms almost Rs 6000 crores of Public Sector banks are blocked in small enterprises NPAs. Hence these banks are risk averse to expanding their small enterprises portfolio. or what plans they have for the times of crises.

What is a sick SME –A unit is called sick when any of the borrowable account of the unit remains sub-standard for more than six month i.e principal or interest remains overdue for a period of one year. OR

There is an erosion in the net worth due to accumulated cash losses to the extent of 50% of it’s net worth in the previous accounting year. AND

The unit has been in commercial production for at least two years.

In view of Leo Paul Dana - Entrepreneurship not only creates wealth but also solve the problem of unemployment. The author also provides a survey of education and training of entrepreneurs in different contexts across Asia.

Michael H. Morris, John W. Altman and Leyland F. Pitt (2005)4 – A detailed study is done by Michael H. Morris, John W. Altman and Leyland F. Pitt with the help of twenty one Lebanon entrepreneurs who was new in business or founded their business within five years. They have been asked the changes they made product or service offered, target customer profile, distribution method, facility or space requirements, marketing approach, personnel resources and financial requirements.

Sarah Dinga-Nyoh (2005)5- examines the place of SMEs in an economy, but cautions that their contributions to the economy depend on the application of human rights concepts and the varying levels of economic development of different countries.

RESEARCH STUDIES ON THE PROBLEMS OF SME’S -

Rajesham. & Raghava (2004)6- examined the challenges of SMEs and high lightened their significance in the economy in the process of globalization, they also identified their problems and prospects thereof. The authors in this article also present the scenario of corporate SMEs at national and state level.

Aparna Sahay (2004)7 observes the Gender Disparity in India through SMEs census and other reports. The author draws our attention to the real situations of SMEs in violence, unequal wages, illiteracy and a host of other issues-declining sex ratio, rates of maternal mortality and infant mortality and states the fundamentals of SSI’s autonomy.

Anil Kumar (2004)8 examines the barriers faced by SMEs while managing their business. The analysis of data in this article is based on a sample of 120 SMEs. Analysis of data highlights that overwhelming proportion of SMEs faced the problem of acquiring latest technical know-how and provision of quality of products to the customers.

Jayabal & Nagarajan (2004)9 examines the reasons for entrepreneur’s failures in the business. The author has made an attempt to look at the cause of such failures and states in general that the entrepreneurs fail when they start a venture with inadequate capital. The author concludes by saying that entrepreneurs should start their ventures after studying their financial capacity carefully.
Devika Paul (2005) examines the Indian planning process and finds a major paradigm shift on SSI’s problems. The author concludes that the success of the planning process would be finally judged when full gender equality is achieved.

David A. Garvin and Lynne C. Levesque (2006) describes the management issues faced by companies that pursue new-business creation, as well as the usual problematic responses. The authors explore a number of the most critical balancing acts the companies must perform, the choices they entail and the risks corporations face when they fail to get the balance right.

Shiralashetti A.S. and Hugar S.S. (2007) studied the problems and prospects of two hundred and twenty SMEs in the State of Karnataka from different angles through Percentage Analysis. The study highlights that shortage of capital, unhealthy competition, difficulties in transporting the products to the consumers point, insufficient information, pricing of their products, lack of training facilities in the respective areas, playing too many roles and dominance from the male members of the family, incompetence in use of resources, less interest to extend and diversify the business, low literacy and lack of savings and investment portfolio were some of the major constraints faced by SMEs.

OBJECTIVES OF THE STUDY – The study is done to know the following points -

A. To know about the various reason of SME units going into bad
B. To find out various solutions to save SME units going into NPA
C. To find various ways to help SME units for growth
D. To find out the causes of sickness in view of SME entrepreneurs
E. To find out more point of credit rating used generally by various banks

HYPOTHESIS: The following hypothesis has been laid down for the present study purpose:-

It is hypothesized in this study that by the way of pre-planning and corrective measures, entrepreneurs can mitigate the risk in SME units.

METHODOLOGY:-

DATA COLLECTION: Primary data is collected from the 75 SME units in form of well structured questionnaire given to entrepreneurs or partners of such SME’s and deep study of some of the SME units, went into bad loans. Such study is carried out with the help of data provided by various branches of some public sector banks. Besides it, data is also collected in the form of questionnaire given to credit officers of commercial banks. To prove the hypothesis ten measures have been taken and study on 75 entrepreneurs is done with the help of questionnaire having that measures, selected. For each measure chi square test is taken to know that it will prove the hypothesis or not.

Secondary data was collected from the various research papers on SME, published in national and international journals, case studies, in house magazines of leading commercial banks, various reports published by MSME dep. Gov. of India, SIDBI, NABARD, RBI etc. Data was also collected from websites of RBI.

RESEARCH FINDINGS-It was found after going through the earlier researches or studies done on SME sector, study done with the help of interview of credit officer as well questionnaire and interview of entrepreneurs and finance officers of the SME units, it was found that there are mainly eight risk areas for the SME units. Which are-

A. POLITICAL RISK- The political risk is due to different political backgrounds of the countries. Political risk may be due to war, situation of communal riots, weak law and order situation etc. The recent example of this is not setting up of Nano plant in Orissa state of India. This type of risk is also have a great importance for the exporters as they have to keep in mind the political background and relations with home country before deciding to trade with these countries.

B. MANAGEMENT RISK- Management risk is due to the qualities of entrepreneurs or relations between partners of the firm. It is find in the research that experience in the business is one of the most important quality for the entrepreneur, others are his leadership style, knowledge of how things works, motivation level, internal control etc.

C. INDUSTRY RISK- The industry parameters like overall demand-supply scenario, level of entry barriers and competition, availability of substitutes and technological trends, government support to the sector and cycleality and seasonality of industry, etc always affect any unit so the entrepreneurs should be cautious about industrial risks.

D. TECHNOLOGY RISK- It has been seen that maximum of sme units are still using the old out-dated tools and machineries. Obsolete technology leading to high cost of production raises the cost of production making it difficult for the small enterprises to meet the demand of the buyers at competitive price. Technology is changing at a fast rate, so entrepreneurs should keep updating their technologies and keep upgrading their tools to face the challenges.

E. INFORMATION RISK- The informational risk is connected to the marketing problems of the business i.e. collection of either wrong or useless information from the market like wrong identification of product, non
recognition of current trends of market, unfulfilled commitment to buyers, cheap raw material used in production resulted in decreased sale of final product or loss in old buyers etc.

F. COMPETITION RISK- This type of risk is faced not only due to the competitors already existing in the industry or from the new entrants but also from customers, suppliers, and existence of substitute product. To know more about competition risk we will get a glimpse of Michael E. Porter’s five forces model. According to it, a unit have five type of competition risks-

1. Entry barriers
2. Rivalry among firms
3. Threat of substitute
4. Bargaining power of Buyers
5. Bargaining power of Supplier

G. ACCIDENTAL RISK - This risk is arise due to various incident/accident happen in the firms sometimes due to non avoidable situations and sometimes due to negligence or not following the correct procedures of work. Accident on work place also happened due to non-adherence to rules and regulations and unethical means practiced at work.

H. LEGAL RISK- When one trade with somebody a lot of legal issues arise because they have to bound themselves with the rules & regulations of business which are covered under business law. It should be advisable for entrepreneurs to have a basic knowledge of business law to save themselves from the risk arise from unadherence to these law by any one party.

I. RISK DUE TO CRIMINAL ACTIVITIES- The word corporate crimes can be widely seen when we are referring the books or publications related to business environment or business risk. This type of risk may be by employees, customers, channel partners or may be by director or other senior executive in the form of frauds or using other illegal methods for making immediate and excess money. This type of activities not only decrease the wealth of the firm but on the same time gives a negative impact on the various stock holders of the unit.

J. MARKET RISK- Market risk is arising due to fluctuations of the market. As we know that market conditions never stand still, it keeps changing always and has volatile trends. Business cycle gives us a clear view of changing markets. Business cycle has four parts-

1. Growth
2. Recession
3. Depression
4. Recovery

So before starting any planned activity the entrepreneur should judge prevailing market conditions.

As we know that prevention is better than cure, these are some basic points which can work as important measures to prevent SME going into sick.

1. RESERVE FUND- It was found in the research that maximum of the firms keep some of their profit as a reserve which can be used in ups and downs of the business. These funds can be kept in banks in the form of recurring deposit, where entrepreneurs keep putting fund periodically or in the form of fixed deposits. These funds can be utilized as and when required.

2. MARKET RESEARCH- Market research is an important tool to know about conditions prevailing in the market. Market research should not only used at the time of starting the unit or at the time of expansion planning but it is to be used continuously by the entrepreneurs to know about the changes going on in the market and modify it’s production to suit the best market demands. For successful market research they should develop a continuous market intelligence system.

3. EXPANSION OF BUSINESS PORTFOLIO- Expansion can be done by integrating it’s channel either horizontally or vertically. While horizontal expansion is taking over the business of competitors at the same level, vertical expansion is taking the business either upward or downward. In view of SME sector vertical expansion plan is useful. Where in upward expansion it integrates it’s suppliers and in downward integration it integrates it’s channel marketers like wholesaler or retailers.

4. INSURANCE- Insurance is a very useful tool to mitigate various risk arose due to different –different factors. It is beneficial for both the SME unit and the bank which is financing the said unit. A lot of schemes are available with a lot of companies for all type of insurance viz. stocks, factory or house building etc. Units can take this advantage of completion among the different insurance companies and take the plan which suits best according to their need. Besides general insurance, Export credit guarantee scheme (ECGC) and Credit Guarantee Fund Scheme For Micro and Small Enterprises (CGTSME) are set up by govt. of India for the benefit and growth of MSME sector in India.
5. FOLLOWING MARKET LEADER- The market leader exits in every industry sometimes it is seen that many firms are following market leader strategy or steps. But it is advisable to the entrepreneurs that before going on the path of market leader, they should analyse SWOT (Strength, Weakness, Opportunities and Threats).

6. TAKING HELP OF CONSULTANTS-Under the policy guidelines of government of India, Ministry of MSME, many scheme has been started like... An ‘Udyami Helpline’ (a Call Centre for MSMEs) with a toll free No. 1800-180-6763 has been functioning, set up under the ‘Rajiv Gandhi Udyami Mitra Yojana (RGUMY)’ to provide information, support, guidance and assistance to first generation entrepreneurs as well as other existing entrepreneurs. Under ‘Prime Minister’s Employment Generation Programmme Scheme, 17 reputed national level institutions with expertise in cluster development methodology are appointed as Technical Agencies (TAs) to provide technical support to the Nodal Agencies and the Implementing agencies. Many public sector bank also provide guidance to MSME sector. Many entrepreneurs are taking help of these schemes.

7. LEGAL ADVISE- As it is found in case of study that not only legal risk involve in the business but also risk of criminal activities is involved here so it is advisable for the party to take help of legal advisor on various related matters before taking any action on the subject matter. The action taken with half information or knowledge may go in adverse for a party involved.

8. INDEPENDENT EXTERNAL AUDIT- Many entrepreneurs advised to take independent external audit while many of them think that it is wastages of money. It is advisable by the researchers, case studies shows that external independent audit of stocks or internal books of accounts is much helpful in locating the various loop-holes related to obsolete or outdated stocks, as well in the books of account which makes it very easy for an entrepreneur to take corrective actions timely.

9. KNOWLEDGE OF GOVT. POLICIES- The government of India time to time issue various guidelines and make new or modify it’s old schemes for giving boost to SME sector and help those in crises or sick units. It also established many entrepreneurship development training centers and other training centers of various specialization training. So the entrepreneurs who have knowledge of policies and schemes of the government get benefit of it.

10. INTERNAL CONTROL- Internal control comes under the managerial qualities of the entrepreneurs or the partners of the unit. Here an entrepreneur has to play the role of an executive and have to look after all the fields like personnel management, finance, marketing, as well production of the firm.

SUGGESTIONS: This study gives some important suggestions for the entrepreneurs and for further researchers in this field-

1. All entrepreneurs should be pre-planned face the risks coming in their way.
2. Entrepreneurs should allocate budget for risks in their initial planning.
3. Entrepreneurs should keep in mind various consequences arising out by risk for their firm and make control plans accordingly.
4. As the risk area is too large so by further researches we can find out more results.
5. Further researches on the planning of big or benchmark firms can work as guideline for others.

CONCLUSION
Now in the last of the study it can be concluded that it has a immense importance to give proper support to growing sme by the govt. units for the development of the country. Here major type of risk which can not only harm the growth but can be a cause of shut down of these units are discussed. For the survival and growth of these units entrepreneurs should be preplanned to face any type of risk challenging their business. Now to mitigate the risk aroused out of various reasons, here in this study, it is found that using the risk mitigation measures, one can easily save his business or at least lesson his losses.

REFERENCES:


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