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# Exploring the Financial Barriers in the Indian MSMEs by Using ISM Model

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Abstract

Micro, small & medium enterprises are acts as a deep root of any economy because these are contributing significantly to the employment generation and economic growth. According to the Ministry of MSME's there are around 63.4 million MSME's in India, employing over 110 million people. However, the COVID-19 pandemic has had a severe impact on the sector, with many MSME's facing financial difficulties and struggling to survive. There are various financial factors, like access to finance, higher interest rates, collateral requirements, working capital requirements, compliance costs, cost of raw materials, etc., which directly impacts the MSME's overall performance. Although Indian govt. has announced uncountable relief's and schemes to support this sector and continuously working on this. But still financial factors are affecting this sector. In this paper, we have done a study on financial factors which directly affects MSME's performance and their working using an ISM Model. To do this, we approached some of the area experts' opinion about it and asked them what factors they considered affects the performance of their enterprises and how these factors are related to each other? We have collected data from these experts of the field through questionnaire. After this we have analysed their opinions and establish a relationship between each of the factors. By creating a relationship between all these factors we have made an ISM model which finally giving a conceptual framework to us.

**Keywords:** *MSME's, ISM, Financial Factors, Performance.*



## 1. INTRODUCTION

SMEs are important drivers of economic growth and sustainable job creation opportunities (Ćirić et al., 2017). Despite having tremendous opportunities, MSMEs face a number of challenges (Biswas & Vernekar, 2019).The understanding

of problems of small business is of great importance for those who are running the small business (Lang et al., 1997).For policy makers, the understanding of issues related to small business will help to formulate policies and developing schemes to assist these small scale industries. For academician the understanding of problems of these small organisations will help to give direction for further research (Banks, M. C., & Taylor, S. 1991). Various studies have been conducted to classify the problems of entrepreneurs among which some frameworks have been proposed by researchers. According to Walsh 1988, problems can be classified in to five areas which consist of human relation, accounting & finance, marketing, internal management and external management.

## 2. LITERATURE REVIEW

The difficulties with financing have always been a major source of concern, even though it has long been acknowledged that MSMEs face a variety of fundamental challenges that are inhibiting their expansion, namely obtaining finance, infrastructures, promotional activities, educational and training opportunities, and regulatory requirements. The paper also looks at the trends in bank lending to MSMEs in India, where overall bank credit has grown by an average of 21.72% during the past seven years, from 2007 to 2014. It emphasizes the requirement for more bank funding of MSMEs (Sudalaimuthu, S; KANNAN, 2014). A thorough review of the literature has revealed a number of factors that have an effect on innovation efforts and the performance of the firms, including human resource management (HRM), systematic planning, location, organisational culture, physical infrastructure, strategic financial management, technology dynamism, and market research. A company's strategic development is significantly influenced by a number of important variables, including entrepreneurial aptitude, infrastructure competence, organisational culture and climate, and government initiatives (Singh et al., 2018). Lack of awareness, inadequate warehousing, transportation concerns, restrictions on advancement and modernization, and difficulty in identifying new customers. Ineffective marketing strategies, Low return, inferior input quality, insufficient authority limits, knowledge and limited capital and timely bank finance, low production volume and application of the right technologies are the main problems that MSMEs in India are suffering (Shiralashetti, 2012). The MSME sector has continually dealt with a number of problems despite its significance and contributions to the Indian economy. After India's liberalisation and internationalisation in 1991, the market's advanced technology led to fierce competition in this area from both domestic and multinational corporations (Dahiya, 2015). MSMEs today deal with a number of problems related to infrastructure, human resources, marketing, getting access to finance, and other areas. In addition to impeding the sector's expansion, losses result from this. When there are growth barriers, it is possible that the units will be closed. It is vital in this scenario to not only understand the issues they are facing but also discover solutions (Garg & Agarwal, 2017).

The registration process is expected to increase MSME borrowers' satisfaction with the source of their funding. However, it has been discovered that registration status is unrelated to how satisfied borrowers are with their source of financing. As a result, DIC hasn't been able to modify the bank borrowers experiences (Choudhury, 2018).It is concluded that there are three areas where small industries are facing problems are Marketing, human resources and management (Huang & Brown, 1999).It was suggested that the tendency of small enterprises to fail during their formative year has hampered efforts to increase the number of employees in the small firm sector. Frequently, these failures are linked to bad management (Cromie, S. 1991). The main reasons for the unequal distribution of MSME's in India are a lack of raw materials, a lack of entrepreneurship training, and a lack of support for financial and technical assistance from relevant local authorities at the level of the district, state, and federal government. The main challenges MSMEs face are a lack of timely and adequate credit facilities, excessive credit costs, outdated technology, a lack of research and inventions, inadequate training and skill development, and complicated labour laws(Ali & Husain, 2017).Numerous studies and analysis reveal that Micro, Small, and Medium-Sized Enterprises in India face a variety of problems and challenges, including delays in obtaining statutory

permissions for things like power, Major obstacles include a shortage of trained workforce in the manufacturing, service, and marketing industries, limited access to foreign markets, inadequate and tardy financing options, collateral requirements, and inadequate infrastructure. **(Khanna, 2018)**.Despite their high energy and growth potential, SMEs in India also faces a variety of difficulties, such as insufficient operational scale, outdated technology, ineffective supply chains, increasing domestic and global competition, a lack of funding, adjustments in manufacturing strategies, and an unstable and unreliable market environment. If SMEs want to overcome these obstacles and compete with large, global companies, they must adopt new operational strategies **(Ravi & Roy, 2014)**. The micro and small enterprises have very few options with them for financing **(Sarkar, 2014)**. According to the study, some entrepreneurs struggle to flourish because they don't have a place to sell their goods, their employees aren't properly trained, which slows down production, or their financial management is weak **(Syariah & Islam, 2017)**.One problem with MSME is their ignorance of brand building, and only a small portion of MSME in Indonesia use digital media**(Aristawidia, 2020)**. For more than 75% of MSMEs in Yogyakarta, it has been demonstrated that marketing of their company has declined. Additionally, more than 50% of Yogyakarta's MSME operators have difficulty repaying loans due to the Covid-19 epidemic scenario**(Hartono et al., 2021)**.The issue of financial management is one that MSMEs commonly encounter. The growth of MSMEs depends on prudent financial and managerial practices**(Fathah & Safitri, 2020)**.The MSME sector, despite being a prominent player, is currently facing a variety of obstacles with financing, technology and innovation, product marketing and socio-cultural concerns problems with its growth of human resources **(Kumar & Gajakosh, 2021)**.

## 3. RESEARCH OBJECTIVES

The purpose of the research is to highlight the financial problems that hamper the performance of Indian MSMEs. The study also aims to create an ISM in order to establish relationships and understand how the chosen factors affect each other and the performance of MSMEs.

## 4. RESEARCH METHODOLOGY

Interpretive Structural Model (ISM), is a conceptual framework which gives a direction for various obstacles and provide a comprehensive and directional framework for complicated situations with its all connected variables. **(Wang et al., 2008; Chandramowli et al., 2011)**.Singh and Kant (2008) highlight the obstacles regarding knowledge management and use ISM to analyze the connections between the obstacles. Chandramowli et al., 2011use ISM to analyze development constraints in landfill communities. Raeesi (2013) use ISM to examine how several entrepreneurship constraints interact with one another. The process of developing ISM Model includes nine steps. Firstly, Identification of all the elements or factors (barriers), secondly, experts discussion and feedback from them to ensure it is helpful for the study concerned, thirdly, development of the Structural Self-Interaction Matrix (SSIM) for all the elements or factors considered, which shows pair-wise relationships among each of the elements of the structure. Fourth step is creation of initial reachability matrix (IRM) from SSIM. Fifth step is to develop Final Reachability Matrix (FRM) in the binary form using transitivity, which means that if there are 3 variables, in which “A” variable leads to “B” variable, and “B” variable lead to “C” variable, then ultimately “A” associated with “C” variable. Step 6: After this, Level Partitioning is done to determine reachability set, antecedent set, intersection set. Step 7: Construction of the driver dependence matrix to find out the dependent, independent, linkage or autonomous variables. Step 8: Construction of the diagraph based on the relationship of all variables of ISM. Step 9: Lastly, this diagraph is converted to an ISM structure by giving proper name to each nodes.

To derive the conclusions we have considered expert’s opinions through questionnaire. This data has been used to find relationship between the factors and finally model prepared using the ISM. In this study, we have presented some financial factors relationship with each other based on the expert’s opinion with the help of ISM (Interpretive structural model). For this, we have contacted 60 entrepreneurs from

Palwal, Hissar, Gurgaon and Bhiwani districts from the Haryana State. Here, the list of these crucial factors have been presented as:

## 5. DEVELOPMENT OF ISM (INTERPRETIVE STRUCTURAL MODEL)

### 5.1. Financial Factors influencing MSME's Performance

**Table-1:** Financial Factors influencing MSME's Performance

| Sr. No. | Factors | Label |
|---|---|---|
| **1.** | Shortage of Capital | **A1** |
| 2. | Collateral on Loan | **A2** |
| 3. | Service Charges | **A3** |
| 4. | Loan Related Problems | **A4** |
| 5. | Interest on Loan | **A5** |
| 6. | Requirement of Working Capital | **A6** |
| 7. | Purchase Raw Material on Cash | **A7** |
| 8. | Sales on Credit | **A8** |
| 9. | Bad- Debts | **A9** |
| 10. | Cost of Raw Material | **A10** |

Financial factors play a significant role in the performance of MSMEs in India. These factors include Shortage of Capital, collateral on loan, service charges, loan related problems, higher interest on loan, working capital requirements, credit sales, bad- debts, higher cost of raw-materials, taxation policies, government support, and competition and high tax rates can all impact the profitability and competitiveness of MSMEs. On the other hand, government support in the form of subsidies, incentives, and loan schemes can help MSMEs to access finance and expand their operations. Effective financial management and marketing strategies can also help MSMEs to compete effectively in the market. Overall, these financial factors are complex and interrelated, and effective management of these factors is critical for the growth and sustainability of MSMEs in India.

The factors in this table has been chosen by the researcher at their own. A total of 10 factors have been identified so that we can find the exact relationship between all these by making an ISM model. All the factors above in the table has labeled as A1, A2, A3 ...and so on. A group of experts have been approached to ask is there any relationship between all these factors? Which factor affects or affected by other factors in which manner? In this paper it is trying to find out that in all these financial factors which affects the MSME's performance, what kind of relationship exists? How are all these factors inter-related or not to each other? To find the answer of all these questions an ISM Model has been created. We have find that above factors are the main financial constraints to the MSME's.

### 5.2. Development of Initial Matrix-SSIM (Structural Self-Interaction Matrix)

**Table-2:** Development of Initial Matrix-SSIM (Structural Self-Interaction Matrix)

| Sr. No. | Factors | A10 | A9 | A8 | A7 | A6 | A5 | A4 | A3 | A2 | A1 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **1.** | Shortage of Capital | **A** | **A** | **A** | **A** | **A** | **A** | **A** | **A** | **A** | | |
| 2. | Collateral on Loan | **O** | **O** | **O** | **O** | **O** | **A** | **V** | **V** | | | |

| | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 3. | Service Charges | **O** | **O** | **O** | **O** | **A** | **O** | **V** | | | | |
| 4. | Loan Related Problems | **O** | **A** | **O** | **O** | **A** | **A** | | | | | |
| 5. | Interest on Loan | **O** | **A** | **O** | **A** | **O** | | | | | | |
| 6. | Requirement of Working Capital | **A** | **A** | **A** | **A** | | | | | | | |
| 7. | Purchase Raw Material on Cash | **V** | **A** | **V** | | | | | | | | |
| 8. | Sales on Credit | **O** | **A** | | | | | | | | | |
| 9. | Bad- Debts | **V** | | | | | | | | | | |
| 10. | Cost of Raw Material | | | | | | | | | | | |

| | |
|---|---|
| If row affects column → | **"V"** |
| If column affects row → | **"A"** |
| If both are interdependent→ | **"X"** |
| If No Relation exists → | **"O"** |

In table-2, the ISM has been developed after comparing each row with column and then assigned specific symbols like, (O, X, A, V).

For creating the Inter- relationship between all factors there are four symbols have been used. If Row factor impacts the column factor then this has been taken as "V". If column factor impacts the row factor then this has been taken as "A". If both the column and row factors impacts each other, this has been taken as "X". Like this if there is no relation between both factors then this has been taken as "O". Firstly, to find out the relationship between factors an Initial Matrix-SSIM (Self Structural Interaction Matrix) has been created above in the table. These observations are taken by asking the experts also.

### 5.3. Creation of IRM (Initial Reachability Matrix)

**Table-3:** Creation of IRM (Initial Reachability Matrix)

| Variables | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | Driving Power |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Shortage of Capital | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 |
| Collateral on Loan | 1 | 1 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 4 |
| Service Charges | 1 | 0 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 3 |
| Loan Related Problems | 1 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 2 |
| Interest on Loan | 1 | 1 | 0 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 4 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Requirement of Working Capital | 1 | 0 | 1 | 1 | 0 | 1 | 0 | 0 | 0 | 0 | 4 |
| Purchase Raw Material on Cash | 1 | 0 | 0 | 0 | 1 | 1 | 1 | 1 | 0 | 1 | 6 |
| Sales on Credit | 1 | 0 | 0 | 0 | 0 | 1 | 0 | 1 | 0 | 0 | 3 |
| Bad- Debts | 1 | 0 | 0 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 8 |
| Cost of Raw Material | 1 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 1 | 3 |
| **Dependence Power** | 10 | 2 | 3 | 6 | 3 | 5 | 2 | 3 | 1 | 3 | |

In Table-3, based on the factors as mentioned in the SSIM, a Reachability Matrix has been made. This matrix converts the observations taken in the SSIM into binary mode. For creating this matrix symbols A, V, X, O used in the SSIM has been replaced by the 1 and 0, so that we can calculate the total of each Row and Column. Both Dependence Power and Driving Power of each factor has been calculated by the totaling of each Rows and Columns.

Here are the guidelines for converting SSIM into IRM. - (i) If the SSIM cell (i, j) code is V, then the value of (i, j) becomes 1 and if (j, i) the value in the IRM is set to 0. (2) If the SSIM cell (i, j) code is A, afterwards, the (i, j) value converts into 0 and the (j, i) changes to 1.(3) If the SSIM cell (i, j)'s code is X, then the value of (i, j) changes to 1, and (j, i) value in the IRM is set to 1. (4) If the SSIM cell (i, j) code is O, afterwards, the (i, j) value converts into 0 and the (j, i) value in the IRM to 0.

The IRM is prepared in the table-3 is according to above guidelines.

### 5.4. Final Reachability Matrix FRM (Transitivity)

**Table-4:** Final Reachability Matrix FRM (Transitivity)

| Variables | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | Driving Power |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Shortage of Capital | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 |
| Collateral on Loan | 1 | 1 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 4 |
| Service Charges | 1 | 0 | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 3 |
| Loan Related Problems | 1 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 2 |
| Interest on Loan | 1 | 1 | 1* | 1 | 1 | 0 | 0 | 0 | 0 | 0 | 5 |
| Requirement of Working Capital | 1 | 0 | 1 | 1 | 0 | 1 | 0 | 0 | 0 | 0 | 4 |
| Purchase Raw Material on Cash | 1 | 1* | 1* | 1* | 1 | 1 | 1 | 1 | 0 | 1 | 9 |
| Sales on Credit | 1 | 0 | 1* | 1* | 0 | 1 | 0 | 1 | 0 | 0 | 5 |
| Bad- Debts | 1 | 1* | 1* | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 10 |
| Cost of Raw Material | 1 | 0 | 1* | 1* | 0 | 1 | 0 | 0 | 0 | 1 | 5 |
| **Dependence** | 10 | 2 | 3 | 6 | 3 | 5 | 2 | 3 | 1 | 3 | |

| Power | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|

In the table-4, Final reachability matrix is also called heart of ISM methodology. This is derived by using transitivity, which means that if there are 3 variables, in which "A" variable leads to "B" variable, and "B" variable lead to "C" variable, then ultimately "A" associated with "C" variable. This rule is followed to remove the transitivity. Whenever this rule breaks, we need to modify and review our SSIM again by giving experts feedback.

### 5.5. Level Partitioning(LP)

**Table-5:** Level Partitioning(LP)

| Elements(Mi) | Reachability Set R(Mi) | Antecedent Set A(Ni) | Intersection Set R(Mi)∩A(Ni) | Level |
|---|---|---|---|---|
| 1 | 1, | 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, | 1, | 1 |
| 2 | 2, | 2, 5, 7, 9, | 2, | 4 |
| 3 | 3, | 2, 3, 5, 6, 7, 8, 9, 10, | 3, | 3 |
| 4 | 4, | 2, 3, 4, 5, 6, 7, 8, 9, 10, | 4, | 2 |
| 5 | 5, | 5, 7, 9, | 5, | 5 |
| 6 | 6, | 6, 7, 8, 9, 10, | 6, | 4 |
| 7 | 7, | 7, 9, | 7, | 6 |
| 8 | 8, | 7, 8, 9, | 8, | 5 |
| 9 | 9, | 9, | 9, | 7 |
| 10 | 10, | 7, 9, 10, | 10, | 5 |

After creating the initial reachability matrix, ranks provided to each cell, then level partitioning has been made taken into account the antecedents, intersection and reachability set.
In table-5, level partitioning of all the variable has been done by checking the effect of each independent variable on dependent variable, for doing this, Reachability set, Antecedent set and Intersection set has prepared.

- Reachability Set-This is prepared by considering each row factor as (independent variable). This counts the factors which influenced by this factor including itself.
- Antecedent Set-This is prepared by considering each column factor as (dependent variable). This counts the factors which influenced this factor including itself.
- Intersection Set- This consists of common factors in each set.

The top level of the ISM hierarchical framework is occupied by the factors for which the intersection set and reachability are identical. The top-tier factor would not aid in reaching any other factor outside of its own tier.

As a result, this top-tier element is recognized, and keep separate from the other factors. The following top-tier factors are acknowledged for the following tiers in a similar way, up until all the elements reach a particular level. These designated levels are used to build the final ISM model as well as the digraph.

### 5.6. Driver Dependence Matrix (MICMAC)

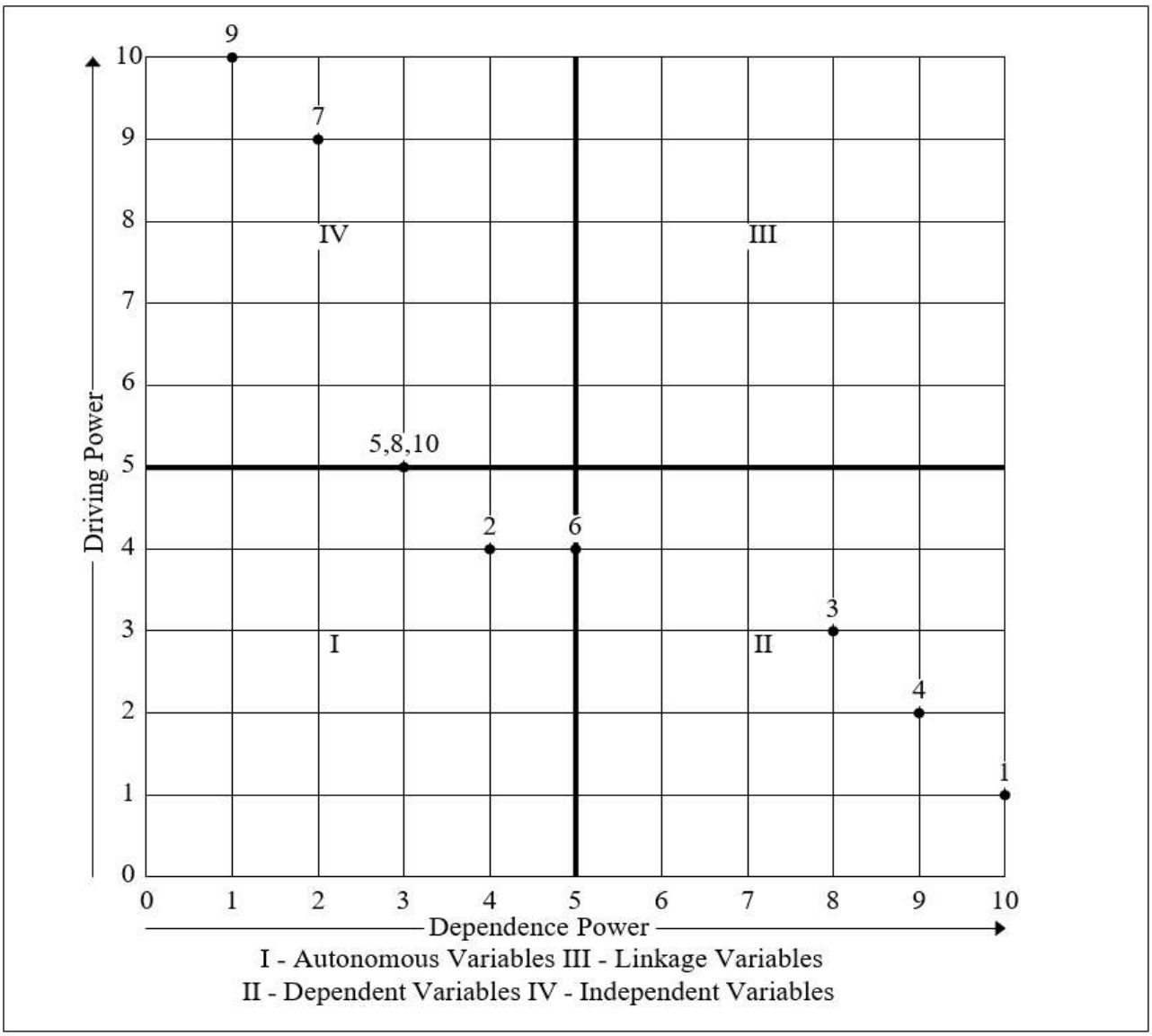


**Fig-1**

To create the driver dependence matrix labelling has been done. The Ranks has been given so that based on these, we can create a triangular matrix to define the inter-relationship between the financial factors. This matrix also known as MICMAC, which determines the driving power and dependence power of the variables and plot them on a chart.

It is evident from this figure 1 that there are four quadrants in which all factors are comprised such a way so that we can get an idea about dependent, Independent, Autonomous and Linkage variables.

It can be observed that most of the factors are found in 4thquadrant. The factors in this quadrant are independent in nature having high driving power and low dependence power. Any changes in these factors will affect dependent variables. The factors in the 1st quadrant are Autonomous. They have weak Driver and Dependence Power. The 2nd quadrant comprising three factors are Dependent Variables having high dependence power and low driving power. Likewise, in the 3rd quadrant there are none of the variables present with the high driving power and dependence power.

### 5.7. Final ISM Framework

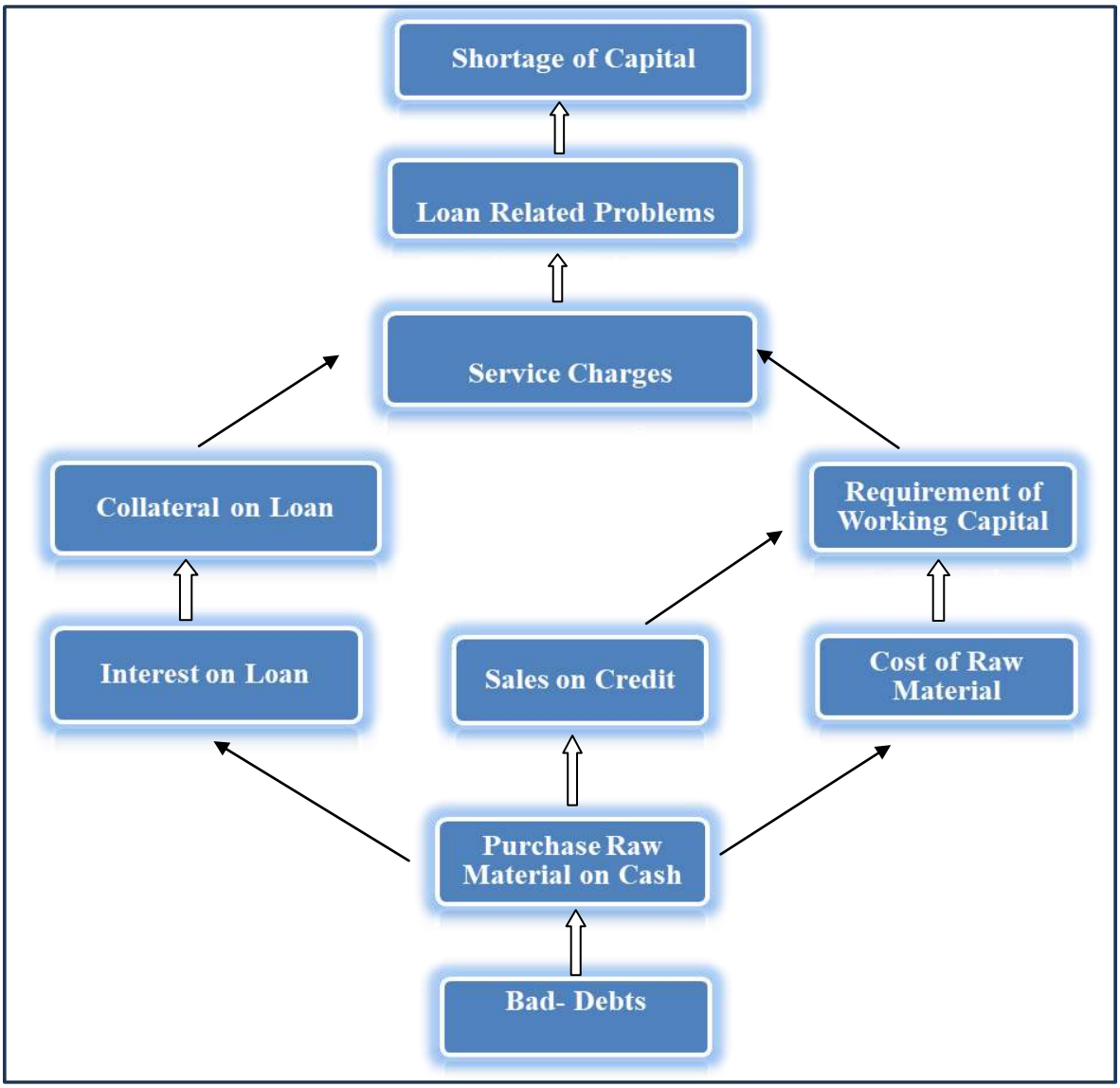


**Fig-2**
**Source:** (Based on ISM Methodology)

## 6. DISCUSSION AND CONCLUSION

There is no doubt that MSME's have been a very crucial and rapidly growing sector nowadays, since it doesn't only provide various employment opportunities to the people but also industrialized the rural and backward areas so that lives can be more satisfying there (Biswas, 2014). But this industry has to bear so many financial and non-financial barriers to exist. In this study, we have presented some financial factors relationship with each other based on the some expert's opinion with the help of ISM (Interpretive structural model).

The present study has examined the interrelationship between various financial factors impacting MSME's performance. These factors directly affects the profitability and survivability of any firm. For this purpose present study uses ISM methodology which gives us a directional and structured framework to identify and analyze the various factors.

According to the ISM model (figure: 2) we can say that shortage of capital is the key financial factor which directly influence the performance of MSME's. Bad-debts are at the lowest level in the hierarchical framework. If there is bad-debts this leads to purchase of raw materials on cash, which leads to credit sales, working capital requirements, problems in acquiring loan with extra service charges, ultimately lead to shortage of capital.

Further, if any firm has shortage of funds, this can be due to higher interest on loan, demands of collateral security. In the MICMAC analysis resulted in (figure: 1) there are 4 quadrants which comprises all the factors lies with driving power and dependence power considered. There are no linkage variables present with high dependence power and high driving power in the 3rd quadrant. It means that all the variables either dependent or independent factors. Most of the factors are found in the 4th quadrant, which depicts that Interest on loans, credit sales, cost of raw materials, Purchase of raw materials on cash and working capital requirements re the leading factors which affects the other dependent factors. These dependent factors lies in the 2nd quadrant which comprises service charges, loan related problem and ultimately shortage of capital. Only one factor, collateral security lies in the 1st quadrant which known as autonomous variables, shows lower dependence power and lower driving power. These factors are neither too much affected by other factors nor affects other factors. This can be concluded that overall the shortage of funds which lies in the 1st level of the hierarchical model is the main concern of the MSME's. We need to reduce this barrier of MSME's so they can enhance their productivity and profitability. Indian MSMEs require financial support and training to improve their financial management and access to financial resources. The adoption of modern technology and innovation can help MSMEs to grow and compete with larger players in the market. The government needs to recognize the need for advanced technological infrastructure and provide support to MSMEs to make it happen. Also, government must create an environment that promotes transparent, simplified policies that are not time-consuming or costly for MSMEs.

## 7. LIMITATIONS

This study has focused on only financial factors which impacts the MSME's performance. But further studies can be done including non-financial factors too, which might lead to more enhanced framework. Also, this study doesn't provide any evidence about its statistical validation. Although this study is an early attempt to provide interrelationship between various financial factors affecting MSME's performance. Yet another studies can be done by taking a huge sample of experts' opinion to determine the association of factors.

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