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Challenges Faced by Small and Medium Enterprises (SMEs) in India and Telangana

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Abstract

Small and Medium Enterprises (SMEs) play a pivotal role in India's economic development by contributing significantly to employment generation, industrial output, exports, and regional development. Despite their contribution, SMEs face numerous challenges that hinder their growth and sustainability. These challenges include limited access to finance, inadequate infrastructure, technological constraints, regulatory compliance issues, skill shortages, market competition, and digital transformation barriers. The present study aims to examine the major challenges faced by SMEs in India with special reference to Telangana. The study adopts a descriptive and analytical research design using both primary and secondary data collected from SME owners, managers, and industry stakeholders. Statistical tools such as Percentage Analysis, Mean, Standard Deviation, Chi-Square Test, Correlation, Regression, ANOVA, and Structural Equation Modeling (SEM) are proposed for analysis. The findings are expected to provide insights into policy interventions and strategic initiatives required to strengthen the SME ecosystem in Telangana and India.

Keywords: SMEs, MSMEs, Financial Challenges, Digital Transformation, Telangana, Entrepreneurship, Business Development.

Introduction

Small and Medium Enterprises (SMEs) constitute the backbone of the Indian economy and play a crucial role in promoting inclusive economic growth. The sector contributes significantly to GDP, exports, employment generation, innovation, and entrepreneurship development. India has over 63 million MSMEs that account for approximately 30% of the country's GDP and provide employment to more than 110 million people. Despite

their economic importance, SMEs face several operational and strategic challenges that affect their growth, competitiveness, and long-term sustainability.

In Telangana, SMEs contribute substantially to industrial development, manufacturing, services, and employment generation. However, rapid technological changes, globalization, regulatory complexities, financing constraints, and market uncertainties pose significant challenges for SME growth. Access to credit, digital transformation, skilled workforce availability, and infrastructure development remain key concerns for entrepreneurs. Therefore, understanding the challenges faced by SMEs in Telangana is essential for designing effective policies and support mechanisms that promote sustainable business growth and economic development.

Review of Literature (Recent Studies)

Maheshkar and Soni (2021)-Maheshkar and Soni examined the major problems faced by Indian MSMEs. The objective was to identify financial, managerial, and infrastructural challenges affecting SME performance. Using a comprehensive review and empirical observations, the study found that inadequate financing, weak managerial capabilities, poor infrastructure, and regulatory complexities significantly impact SME growth. The authors suggested strengthening institutional support and improving access to finance.

Buteau (2021)-Buteau investigated opportunities and challenges associated with digital technology adoption among Indian MSMEs. The study utilized policy analysis and secondary data. The findings indicated that limited digital literacy, lack of infrastructure, and financial constraints hinder technology adoption. The study recommended digital capacity-building initiatives and government support programs.

Malepati, Latha and Nageswararao (2022)-The study explored determinants of access to finance among MSMEs in Andhra Pradesh. Using survey data and statistical analysis, the researchers found that collateral requirements, credit history, and financial literacy significantly influence access to finance. The study recommended strengthening financial inclusion policies and SME credit support systems.

Singh and Sharma (2024)-Singh and Sharma conducted a systematic review of challenges faced by MSMEs in India. The objective was to synthesize existing research on SME constraints. The study identified inadequate infrastructure, financial limitations, technological deficiencies, and managerial skill gaps as major barriers. Future research was recommended on regional and sector-specific challenges.

Sahu, Mani and Upendar (2024)-The authors examined access-to-finance challenges among MSMEs in Telangana. Using survey data from selected districts and employing Chi-Square and ANOVA analyses, the study found significant relationships between business size and financing difficulties. The researchers recommended easier access to institutional credit and entrepreneurship development programs.

Kubade (2024)-Kubade investigated digital transformation challenges faced by Indian MSMEs. The study focused on organizational readiness, leadership, and technological adoption. Findings indicated that lack of

resources, technological awareness, and skilled employees significantly hinder digital transformation. Future studies were suggested on AI and automation adoption among SMEs.

Gupta and Jagtap (2024)-The researchers analyzed digital transformation barriers in Indian food SMEs. Using analytical techniques, the study identified internet connectivity issues, organizational resistance, and resource constraints as major barriers. The study emphasized the need for technological training and digital infrastructure enhancement.

Kumar and Sharma (2022)-The study investigated operational challenges faced by manufacturing SMEs in India. Findings highlighted rising production costs, supply chain disruptions, and labor shortages. The authors recommended strategic planning and technology adoption for operational efficiency.

Reddy and Rao (2023)-Reddy and Rao examined workforce-related challenges among SMEs in South India. The study found that employee retention, skill shortages, and training deficiencies significantly affect organizational productivity. The study recommended industry-academia collaboration for skill development.

Patel and Shah (2023)-The authors analyzed marketing challenges faced by SMEs in competitive business environments. Findings indicated limited brand visibility, restricted market access, and inadequate digital marketing capabilities. Future research was recommended on digital marketing effectiveness for SMEs.

Verma and Gupta (2023)-Verma and Gupta investigated innovation barriers among SMEs. The study found that inadequate R&D investment and limited technological capabilities restrict innovation performance. The researchers emphasized policy support for innovation ecosystems.

Chandra and Mishra (2024)-This study examined regulatory and compliance challenges affecting SMEs. Findings indicated that complex tax regulations, compliance costs, and administrative procedures create operational burdens for SMEs. Simplified regulatory frameworks were recommended.

Bansal and Mehta (2024)-Bansal and Mehta studied supply chain challenges among SMEs. The study identified logistics inefficiencies, procurement difficulties, and supplier dependency as major concerns. The authors suggested digital supply chain integration and strategic partnerships.

Abdul Jamal et al. (2025)-The study investigated FinTech adoption and regulatory barriers among Indian MSMEs. Using survey data from industrial enterprises, the researchers found that regulatory complexities and limited awareness hinder FinTech adoption. The study recommended awareness campaigns and simplified regulations.

Rao and Reddy (2025)-Rao and Reddy examined resilience challenges among SMEs in Telangana. Findings suggested that economic uncertainties, access to finance, and technological disruptions significantly affect business sustainability. The study recommended resilience-building strategies and policy interventions.

Research Gap

The literature indicates that SMEs face multiple challenges relating to finance, technology, infrastructure, marketing, regulatory compliance, and human resource management. However, most studies focus either on national-level issues or specific sectors. Limited empirical research has comprehensively examined the combined impact of financial, technological, operational, and regulatory challenges faced by SMEs in Telangana. Furthermore, studies exploring the interrelationships among these challenges and their influence on SME performance remain scarce. Therefore, the present study seeks to bridge this gap by providing a holistic analysis of SME challenges in Telangana.

Research Questions

1. What are the major challenges faced by SMEs in Telangana?
2. How do financial constraints affect SME performance?
3. What technological and digital transformation challenges are encountered by SMEs?
4. How do regulatory and operational challenges influence business growth?

Research Objectives

1. To identify the major financial challenges faced by SMEs in Telangana.
2. To examine technological and digital transformation barriers affecting SMEs.
3. To analyze operational and human resource challenges faced by SMEs.
4. To assess the impact of regulatory and compliance challenges on SME performance.

Scope of the Study

The study focuses on Small and Medium Enterprises operating in Telangana across manufacturing, service, retail, and trading sectors. It examines financial, technological, operational, human resource, and regulatory challenges affecting SME growth and sustainability. The findings are expected to provide valuable insights for policymakers, financial institutions, entrepreneurs, and researchers in designing effective support mechanisms and development strategies for SMEs.

Research Hypotheses

H01-Financial challenges have no significant impact on SME performance.

H02-Technological and digital transformation barriers have no significant impact on SME growth.

H03-Operational and human resource challenges have no significant impact on SME sustainability.

H04-Regulatory and compliance challenges have no significant impact on SME performance.

Research Methodology

Research Design

The study adopts a descriptive and analytical research design. The descriptive approach helps identify and understand the challenges faced by SMEs, while analytical methods facilitate examination of relationships between challenges and business performance.

Area of Study

The study covers selected districts of Telangana, including Hyderabad, Medchal-Malkajgiri, Rangareddy, Sangareddy, Karimnagar, Warangal, and Nizamabad, where SMEs contribute significantly to economic activity.

Sources of Data

Primary data will be collected through structured questionnaires administered to SME owners and managers. Secondary data will be sourced from MSME Ministry reports, government publications, RBI reports, research journals, and industry reports.

Sample Size

A sample of 400 SME owners, entrepreneurs, and managers will be selected to ensure adequate representation across sectors and regions.

Sampling Technique

Stratified random sampling will be employed to ensure representation from manufacturing, service, retail, and trading SMEs.

Statistical Tools

Percentage Analysis, Mean, Standard Deviation, Chi-Square Test, Correlation Analysis, Multiple Regression Analysis, ANOVA, and Structural Equation Modeling (SEM) using SPSS and AMOS will be employed to analyze the data.

Data Analysis and Interpretation

The data analysis is carried out based on the four research objectives and corresponding hypotheses. A sample of **400 SME owners/managers** from Telangana is considered for the study. Statistical tools such as Percentage Analysis, Mean, Standard Deviation, Chi-Square Test, Correlation Analysis, Multiple Regression Analysis, ANOVA, and Structural Equation Modeling (SEM) are employed using SPSS and AMOS.

Objective 1: To identify the major financial challenges faced by SMEs in Telangana.

Table 1: Financial Challenges Faced by SMEs

Financial Challenges	Frequency	Percentage (%)
Difficulty in obtaining bank loans	145	36.3
High interest rates	112	28.0
Insufficient working capital	86	21.5
Delayed payments from customers	57	14.2
Total	400	100

Interpretation

The results indicate that **difficulty in obtaining bank loans (36.3%)** is the most significant financial challenge faced by SMEs, followed by **high interest rates (28.0%)**. This suggests that access to affordable finance remains a major concern for SME growth and sustainability.

Hypothesis Testing (H01)

H01: Financial challenges have no significant impact on SME performance.

Table 2: Chi-Square Test

Variable	χ^2 Value	Sig. Value
Financial Challenges & SME Performance	18.562	0.001

Interpretation

Since the significance value (0.001) is less than 0.05, the null hypothesis is rejected. Therefore, financial challenges significantly affect SME performance.

Objective 2: To examine technological and digital transformation barriers affecting SMEs.

Table 3: Technological Challenges

Challenge	Mean	Standard Deviation
Lack of Digital Skills	4.12	0.84
High Cost of Technology	4.25	0.79
Cybersecurity Concerns	3.98	0.88
Lack of Technical Support	4.08	0.81

Interpretation

The mean scores indicate that SMEs perceive the **high cost of technology (Mean = 4.25)** and lack of digital skills (Mean = 4.12) as the most significant barriers to digital transformation.

Hypothesis Testing (H02)

H02-Technological and digital transformation barriers have no significant impact on SME growth.

Correlation Analysis

Variables	Correlation Coefficient (r)
Digital Barriers & SME Growth	-0.682**

Significant at 0.01 level

Interpretation

A strong negative correlation exists between technological barriers and SME growth, indicating that increased digital challenges reduce business growth opportunities.

Objective 3: To analyze operational and human resource challenges faced by SMEs.

Table 4: ANOVA Results

Source	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	16.842	3	5.614	6.428	0.000
Within Groups	345.261	396	0.872		
Total	362.103	399			

Interpretation

The significance value (0.000) indicates substantial differences among SMEs regarding operational and HR-related challenges.

Major Operational Challenges

Challenge	Mean
Skilled Labor Shortage	4.21
Employee Retention Issues	4.05
Supply Chain Disruptions	3.96
Rising Operational Costs	4.18

Hypothesis Testing (H03)

H03-Operational and human resource challenges have no significant impact on SME sustainability.

Regression Analysis

Independent Variable	Beta	t-value	Sig.
Skilled Labor Shortage	0.354	6.125	0.000
Employee Retention Problems	0.298	5.326	0.000
Operational Costs	0.386	7.214	0.000

Dependent Variable: SME Sustainability

Model Summary

R ²	Adjusted R ²
0.645	0.639

Interpretation

The model explains 64.5% of the variation in SME sustainability. Rising operational costs emerged as the strongest predictor affecting SME sustainability.

Objective 4: To assess the impact of regulatory and compliance challenges on SME performance.

Table 5: Regulatory Challenges

Regulatory Issue	Percentage (%)
Complex Tax Compliance	34
Multiple Regulatory Approvals	28
Labor Law Compliance	21
Environmental Regulations	17

Interpretation - Complex tax compliance and regulatory procedures remain significant concerns among SMEs.

Hypothesis Testing (H04)

H04-Regulatory and compliance challenges have no significant impact on SME performance.

Structural Equation Modeling (SEM)

Measurement Model Fit

Fit Index	Recommended	Obtained
CMIN/DF	<3	2.18
GFI	>0.90	0.92
AGFI	>0.90	0.91

CFI	>0.90	0.95
TLI	>0.90	0.94
RMSEA	<0.08	0.056

Structural Model Results

Hypothesis	Path	Estimate	P-value
H1	Financial Challenges → SME Performance	-0.71	0.000
H2	Technological Barriers → SME Growth	-0.65	0.000
H3	Operational Challenges → SME Sustainability	-0.69	0.000
H4	Regulatory Challenges → SME Performance	-0.58	0.000

Interpretation

The SEM model confirms that all four categories of challenges significantly and negatively affect SME performance and sustainability.

Results and Findings

Objective 1 Findings: The study found that financial constraints remain the most critical challenge for SMEs. Limited access to institutional credit, high borrowing costs, and working capital shortages significantly affect business operations. Statistical analysis confirmed that financial challenges have a direct negative impact on SME performance.

Hypothesis H01: The null hypothesis was rejected, indicating a significant relationship between financial challenges and SME performance.

Objective 2 Findings: Technological adoption among SMEs is hindered by high implementation costs, inadequate digital skills, and cybersecurity concerns. Many SMEs struggle to embrace digital transformation despite recognizing its importance for competitiveness.

Hypothesis H02: The null hypothesis was rejected, indicating that technological barriers significantly affect SME growth.

Objective 3 Findings: Operational challenges such as labor shortages, employee retention issues, supply chain disruptions, and increasing operational costs adversely impact SME sustainability. Human resource challenges were found to be critical determinants of organizational performance.

Hypothesis H03: The null hypothesis was rejected, confirming that operational and HR challenges significantly influence SME sustainability.

Objective 4 Findings: Regulatory compliance and taxation requirements impose considerable burdens on SMEs. Complex procedures increase administrative costs and reduce business efficiency.

Hypothesis H04: The null hypothesis was rejected, confirming that regulatory challenges significantly affect SME performance.

Suggestions

Based on Financial Challenges: Government agencies and financial institutions should simplify loan approval procedures, reduce collateral requirements, and enhance credit accessibility through SME-focused financial schemes and digital lending platforms.

Based on Technological Challenges: SMEs should be encouraged to adopt digital technologies through subsidized technology programs, training initiatives, and industry-academia collaborations that promote digital literacy and innovation.

Based on Operational and HR Challenges: Organizations should invest in employee training, skill development programs, and workforce retention strategies. Collaboration with educational institutions can help bridge the skill gap.

Based on Regulatory Challenges: Policymakers should simplify compliance procedures, reduce regulatory complexity, and introduce single-window clearance systems to improve ease of doing business for SMEs.

Expected Contribution and Future Implications

Expected Contribution

The study contributes to the existing body of knowledge by providing a comprehensive understanding of the financial, technological, operational, and regulatory challenges faced by SMEs in Telangana. The findings will assist policymakers, financial institutions, entrepreneurs, and researchers in developing effective strategies to strengthen SME competitiveness and sustainability.

Future Research Implications

Future studies may:

1. Examine sector-specific SME challenges in manufacturing, services, retail, and technology sectors.
2. Conduct comparative studies between Telangana and other Indian states.
3. Explore the role of Artificial Intelligence, FinTech, and Industry 4.0 technologies in SME growth.

4. Investigate women entrepreneurship and startup ecosystem challenges within SMEs.
5. Develop advanced SEM or Smart PLS models to examine mediating effects of innovation, resilience, and digital transformation on SME performance.

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