

Strategies to Counter the Financial Problems Faced by Manufacturing Sector in Punjab—An Empirical Study of Micro, Small and Medium Enterprises

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Abstract—*Manufacturing is very critical to economic growth, prosperity and a higher standard of living. Finance is a crucial ingredient for economic growth. There are various financing options that are present but in order to cater the industrial growth there should be the provision of industrial finance. Well functioning banks, financial institutions and other financial intermediaries, promote technological innovation and industrial growth by providing risk capital and funds to those entrepreneurs who have the highest probability of developing new products, production processes and competitive production facilities.*

The manufacturing sector faces several significant challenges: a shortage of lending, currency volatility, and fears over the sustainability of supply chains and downward pressure on prices. It is also increasingly being realized that there is no alternative to investment in manufacturing if a significant proportion of our massive, partly employed rural workforce has to be transitioned into higher income, higher skilled economic activity.

The manufacturing sector in many countries is in a state of transition. Growing in emerging economies; shrinking but becoming more productive in advanced economies. The new manufacturing giants with low wage economies tend to compete on cost, the established players prefer to move up the manufacturing value chain to compete on technology and innovation. Lean manufacturing techniques which control costs and improve quality are pervasive.

The present study will identify the different financial challenges as felt by manufacturers. The study will suggest how to tackle with these challenges focusing upon the different strategies. The present paper will try to identify the various strategies that must be adopted by the manufacturing industry so as to overcome the various problems felt by them.

1. INTRODUCTION

Manufacturing is very critical for economic growth, prosperity and a higher standard of living. Part of the reason for that is its multiplier effect. More than any other sector in the economy, manufacturing creates the most of the wealth. Manufacturing pays higher wages and provides greater benefits, on average, than other industries [1]. Manufacturing is defined as the process including product development, innovation and commercialization, design, production, manufacturing services

and support (Future Manufacturing Industry Innovation Council, 2006).

Manufacturing industry refers to those industries which involve in the manufacturing and processing of items and indulge in either creation of new commodities or in value addition. The manufacturing industry accounts for a significant share of the industrial sector in developed countries. The final products can either serve as a finished good for sale to customers or as intermediate goods used in the production process [14].

Manufacturing industry trends suggest that a tendency for self employment is gradually catching up in the manufacturing industry scenario. Manufacturing industry trends also indicate that there has been a growth in employment opportunities in the manufacturing industries in different sectors. Changes in forestry, mining as well as technological modifications pertaining to agriculture industry were witnessed. Large scale production also led to the switching over of workers to the industries manufacturing goods [6].

1.1. Nature of Future Manufacturing Enterprises

Manufacturing enterprises are rapidly learning how to achieve good integration of equipment, people, and operations via digital computer technology. They are also beginning to discover how to integrate engineering technology and human resource utilization so that both technology and people perform at full potential. In addition, economics plays an increasingly important role. There should be a strong integration of technologies and management using information technologies (IT), for example, integration of the process planning and production planning, simulation of manufacturing systems, agile manufacturing, fast redesign of new products, modeling of manufacturing equipment performance, including the human operator, functional product analysis, virtual machining and inspection algorithms etc. The key change drivers in most cases of manufacturing technology

include: diminishing component size, enhanced surface quality, tighter tolerances and manufacturing accuracies, reduced costs, diminished component weight and reduced batch sizes.

Computer technology is now developing in at least three new areas vital to future manufacturing: holonic systems, virtual reality and intelligent systems. What is the likely nature of the future manufacturing system and of these three needed technologies? One likely scenario is a human-centered, virtual enterprise, comprising an integrated holonic system of cooperating but autonomous units globally distributed. An example of this is now referred to as the “digital factory” and a detailed example of this, as applied in a major automotive manufacturer, will be given in the paper.

1.2. Working of Manufacturing Industry

Manufacturing industries are the chief wealth producing sectors of an economy. In Manufacturing Industries they use various technologies and methods which are widely known as manufacturing process management. The industries are broadly categorized into engineering industries, construction industries, electronics industries, chemical industries, energy industries, textile industries, food and beverage industries, metalworking industries, plastic industries, transport and telecommunication industries.

Manufacturing industries are important for an economy as they employ a huge share of the labor force and produce materials required by sectors of strategic importance such as national infrastructure and defense. However, not all manufacturing industries are beneficial to the nation as some of them generate negative externalities with huge social costs. The cost of letting such industries flourish may even exceed the benefits generated by them.

1.3. Overview of MSMEs in the Manufacturing Sector of India

Small and Medium Enterprises is an integral part of the Indian industrial sector. The distinctive feature of Small and Medium Enterprises (SMEs) are less capital investment and high labour absorption which has created unprecedented importance to this sector. As per the Development Commissioner of Micro, Small and Medium Enterprises (2001), the sector has the credit of being the second highest in employment, which stands next to agricultural sector [18].

India's economy is principally resource oriented although the size of the manufacturing sector has increased over the recent years. The manufacturing sector of India includes the manufacture of items such as textiles, garments, footwear, sugar, food processing, beverages (including mineral water) and wood based industries. Initially, manufacturing basically involved agricultural products such as sugar and timber. Since

1986 the production of garment has increased tremendously due to the introduction of tax exemptions for factories exporting 70% of their annual production⁸. Manufacturing sector contributes to the GDP, creates employment and generates foreign exchange earnings. GDP from the manufacturing sector increased from around 12% in the late 1980s to about 15% in 1990s.³ According to the Employment Survey Report (2009) there were a total of 22,599 wage earners and 2,412 salary earners employed in the manufacturing sector of India [19].

1.4. Contribution of SMES in Indian Economy

The SMEs have recently emerged as a strong, dynamic and vibrant sector of the Indian economy and playing an important and significant role in the socio economic development of the country. The importance of the SMEs is well established and recognized in the sense that these are more labor intensive and more employment provider as compared to other enterprises [15].

The opportunities of growth in the SMEs sector are enormous due to the following factors [7]:

1. Less Capital Intensive:
2. Extensive Promotion & Support by Government
3. Reservation for Exclusive Manufacture by small scale sector
4. Project Profiles
5. Funding - Finance & Subsidies
6. Machinery Procurement
7. Raw Material Procurement
8. Manpower Training
9. Technical & Managerial skills
10. Tooling & Testing support
11. Reservation for Exclusive Purchase by Government
12. Export Promotion
13. Growth in demand in the domestic market size due to overall economic growth
14. Increasing Export Potential for Indian products
15. Growth in requirements for ancillary units due to the increase in number of green-field units coming up in the large scale sector.

The attractiveness of SMEs can be summed up as, SMEs are usually started by a single or a group of people mainly to earn their livelihood, flexibility in deciding the price and product with response to the market changes, incur lower overheads thus reducing the cost of production up to a certain volume, capable of meeting the niche market requirements and also export their products in small quantity, create 80% of the jobs, found to be labor intensive compared to the larger counterparts, utilize the manpower locally, located in the dispersed location and emerge as clusters for similar kind of units [18].

2. REVIEW OF LITERATURE

The present study is an exploratory research to understand the various problems faced by the manufacturing industries especially the Micro, small and medium enterprises in the post globalization period.

Kumar (2008) explained the current state of the sector and focused on determinants of its competitiveness. He found that Indian manufacturing sector exhibits a great deal of regional variation and a marked dualism between the organized and the unorganized segments in terms of both productivity and wage levels. He also found that although there have been significant changes in the composition of exports in the last 20 years; India is still a very small player at the global level, especially in knowledge intensive and advanced technology products. Finally, he explored India's potential for transforming itself into a hub of mass manufacturing.

Bhatt (2011) analyzed the impact of recent global financial crisis on Indian economy. The down turn that appears to have begun in the USA in September, 2008 have some negative impact on Indian economy. The most immediate effect of this global financial crisis on India is an out flow of foreign institutional investment (FII) from the equity market. Further the study explained the features of recent global financial meltdown, the impact of this crisis on Indian economy and how India came back to high growth.

Bandgar (2011) analyzed the financing problems faced by the MSME. According to the report of March 2011, only about 8% of sick MSMEs is identified as potentially viable while about 5 percent is placed under nursing. The remaining units are considered unviable sick units. Whereas the government has started support programs to MSMEs in the Form of credit guarantee fund, microfinance, credit linked subsidies, quality up gradation, entrepreneurship assistance for women and setting up testing centers.

Apparao (2012) investigated the importance of role played by micro, small and medium enterprises (MSMEs) in the economic development of a country. Further the study analyzed the performance of MSMEs in recent decade and the financial obstacles faced by MSMEs. One of the major problems faced by MSMEs in South Asian countries is lack of finance to advance business growth. MSMEs are short of setup capital, liquid capital, working capital and investment capital to survive and grow in a dynamic and predatory competitive business environment. MSMEs heavily depend on the financial institutions such as banks, credit corporations and development banks for the supply of finance to meet their daily financial needs.

Dingli (2012) examined how the Manufacturing in developed economies is still flourishing and there is still scope to

maintain and sometimes to bring back manufacturing to these parts of the world. The study further reviewed the trends and challenges in manufacturing and illustrated how competition had shifted towards intangible assets, the capability to outsource, to innovate and to invest in advanced technologies not only to bring costs down but to enhance quality, cope with mass customization and develop the capability to produce high value added sophisticated products.

3. OBJECTIVES OF THE STUDY

The main objective of the study is to find the main problems faced by the Micro, Small and Medium scale industries in Punjab focusing upon the financial problems and to suggest some strategies to overcome these problems.

4. RESEARCH METHODOLOGY

The present study consists of Primary data. The primary data is collected using the self administered questionnaire from the owners and the board of directors of the small, medium and micro level manufacturing industries in Punjab. The small scale industries in India is defined as the enterprise is one where the investment in plant and machinery is more than Rs. 25 lakh but not exceed Rs.5 Crore. Medium scale enterprise is one where the investment is more than Rs.5 Crore but not exceed Rs10 Crore. Whereas in micro scale the investment does not exceed Rs25 lakh.

In the study the MSME's covered consists of Textile, Foundries and agriculture based manufacturing industries. The regions under study consist of Amritsar, Ludhiana, Batala, Dhariwal and Gurdaspur. Nearly 100 questionnaires were distributed and 98 were collected in return. The questionnaire consisted of demographic profile of respondents and 20 statements. The respondents were asked to rate the questions on five point Likert scale whereas the statements were divided into highly dissatisfied (-2) to highly satisfied (+2) the factor analysis were run on the data collected.

5. CHALLENGES FOR MANUFACTURING INDUSTRY

The list of obstacles and opportunities facing manufacturers seems endless, including globalization and expansion into new markets; low-cost country sourcing; pursuit of growth through innovation; product proliferation; service competition; going green; the war for talent; mergers, acquisitions, and divestitures; enterprise risk management, and compliance requirements. Addressing each of these areas present an enormous challenge to manufacturers in their own right; taking together, the task is mind-boggling. Beating the competition and driving profit table growth to exceed investor expectations in this context is a daunting task (Deloitte Research Global Manufacturing Study).

What has not changed is that the majority of companies around the world are still Small & Medium (SME) sized firms. The need for co-operation and collaboration has never been more needed than it is now as at individual firm level most SMEs do not possess all the resources and capabilities necessary to compete internationally. New challenges have also emerged. Companies have also gone global through distributed organizations [5].

6. ANALYSIS AND DISCUSSION

In this study, three demographic factors of the respondents namely age, gender and working experience.

Demographic Characteristics	Demographic Variable	Micro Enterprise N=14	Small Enterprise N=34	Medium Enterprise N=50
1. Gender	Male	8	15	37
	Female	6	19	13
Age	Less than 25 yrs	2	5	8
	25-35 yrs	3	10	27
	35-50	7	16	10
	More than 50 yrs	2	3	5
Working Experience	Less than 5 yrs	3	6	12
	5-10 yrs	4	10	26
	10-20 yrs	3	16	8
	More than 20 yrs	4	2	4

6.1. Results of factor analysis

Reliability analysis has been conducted on 20 variables and Cronbach Alpha is determined as 0.868 which indicates reliability of the scale. Table 1 shows the reliability statistics.

Table 1: Reliability statistics

Cronbach's Alpha	N of Items
.868	20

- Kaiser- Meyer- Olkin (KMO) test measures the sampling adequacy and the appropriateness is computed as 0.739 that indicates adequacy of sample.
- The overall significance of correlation matrices is tested with the Bartlett's test of sphericity significant at 2% ($p < 0.000$) that supports the validity of data. Table 2 shows KMO measure the sampling adequacy and Bartlett's test of sphericity.

Table 2: KMO and Bartlett's test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.739
Bartlett's Test of Sphericity	Approx. Chi-Square	829.008
	Df	325
	Sig.	.000

Table 3: Total variance explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.007	3.872	69.041	1.007	3.872	69.041	1.584	17.073	17.073
2	2.439	9.381	36.475	2.439	9.381	36.475	1.627	10.126	27.199
3	2.022	7.777	44.253	2.022	7.777	44.253	1.679	6.48	50.231
4	1.622	6.237	50.49	1.622	6.237	50.49	2.099	8.073	43.752
5	1.372	5.278	55.769	1.372	5.278	55.769	1.685	6.258	62.949
6	0.391	5.036	60.805						
7	0.351	4.364	65.169						
8	0.311	1.197	94.278						
9	0.044	27.094	27.094						
10	0.885	3.405	75.914						
11	0.765	2.943	78.857						
12	0.711	2.734	81.591						
13	0.622	2.394	83.985						
14	0.568	2.184	86.169						
15	0.499	1.92	90.093						
16	0.311	1.197	94.278						
17	0.293	1.126	95.403						
18	.233	.896	97.334						
19	.204	.785	98.938						
20	.122	.468	100.000						

Five factors were extracted with the help of factor analysis, altogether explaining the 69.04% of the variance in the data.

Table 4: Summarized results of factor analysis

Sr. No	Factor-wise Dimensions	% of variance explained	Cumulative % of variance explained
F1	Ability to meet Financial Obligation		
A	Difficulty to obtain external financing	10.126	27.199
B	Lacking in managing internal financing		
C	Less level of working capital		
F2	Price of Raw Materials		
A	Raw materials purchasing cost	17.073	17.073
B	High wholesale price		
C	Transportation Cost		
F3	Financial Cost		
A	High Interest on Loans	6.258	62.949
B	Insurance Cost		
C	Ability to meet Government Certification & Regulations		
D	Tax Regulation System		
F4	Set Up and Plant Cost		
A	Payroll, Rent & Utilities		
B	Set Up cost	8.073	43.752
F5	Other Charges		
A	Losses due to Scrap, Damage by Natural factors, Breakage and crime	8.479	35.678
B	Bad debts and write offs		
C	Depreciation Cost		
D	High machinery Maintenance costs		

6.2. EXTRACTION OF FACTORS

Factors are extracted on the basis of Eigen Values. Factors with Eigen Value greater than 1 are retained, other factors are not included. An Eigen Value represents the amount of variance associated with in the factor. From table, five factors have been extracted and the total variance explained by all the factors taken together is 69.04%. The remaining 31.96 % is due to other factors beyond the scope of the study. Following is the description of the factors derived.

F1 Ability to meet Financial Obligation -: Three variables have loaded and it explains 27.07% of the variance. It deals

with Difficulty to obtain external financing, Less level of working capital and Lacking in managing internal financing.

Inability to obtain external financing: The ability to access finance is important for funding business investment, ensuring businesses reach their growth potential, and for facilitating new business start-ups; a lack of finance can constrain cash flow and hamper businesses’ survival prospects (BIS, 2012). Typically, SMEs are not able to raise money directly in the capital markets and are therefore - with regard to external sources - mainly dependent on traditional bank financing, which is itself limited by constraints due to banks’ refinancing capacity, their risk appetite and capital adequacy.

Inability to obtain internal financing: Internal Finance can be profit that has been retained, squeezed out of working capital, or can be cash from sale of assets. This is money that was already within the business. The companies till today felt that keeping high working capital it will be the freeing up cash from inventory, accounts receivable, and accounts payable. They should try to manage these components that will lead to the more financial flexibility, create value and have a strong impact on a company’s enterprise value by reducing capital employed and thus increasing asset productivity.

Insufficient working capital: Working capital is defined as current assets minus current liabilities. A positive position means that a company is able to support its day-to-day operations—i.e., to serve both maturing short-term debt and upcoming operational expenses. The companies should focus on the tight management of working capital. Companies that improve their working capital management are able to free up cash and thus can, for example, reduce their dependence on outside funding, or finance additional growth projects.

F2- Price of Raw Materials: This factor is the most second important factor on which the eight variables have loaded and it explains 17 % of the variance. Three variables have been loaded onto these factor Raw materials purchasing cost, High wholesale price and Transportation Cost.

Expensive raw materials: Input prices have increased significantly since 2002. Many raw materials prices raised very rapidly, including chemicals and certain machinery and equipment, rose modestly. On average, raw materials prices increased 34 percent between 2002 and 2006. As some rose significantly for most sectors, they generally lagged behind raw material prices significantly. As a result, relative input prices went up substantially for almost all sectors, putting pressure on profitability [9].

High wholesale price: Price fluctuations are common these days. Due to the inflation the price of the raw materials had been increased resulting the more amounts to be spent on the

raw materials as a result high amount of liquid cash is blocked in that.

Transportation and petrol costs: The raw materials, semi finished and finished goods in order to reach to the destination; the company has to invest the specific amount of the fund. Therefore they should try to reduce or manage the operations in such a way so that this cost will not create the financial burden to the company.

F3- Financial Charges: Four variables are loaded on this factor i.e High Interest on Loans, Insurance Cost, Ability to meet Government Certification & Regulations, Tax Regulation System.

Insurance costs: Insurance can influence the probability of losses through moral hazard, fraud, physical damages etc.

High interest rates on loans: The loans which had been taken from the banks and various financial institutions put a extra burden on the company financial resources. Therefore the government should try to offer such loans schemes which less interest to be paid by the borrower.

Government tax, VAT and customs Duty: There should be the uniform tax structure that should be imposed on the industries in order to control the tax evasion and corruption. Also the government should try to encourage the small industry by imposing less tax on them.

F4- Set Up and Plant Cost: Two variables are explained onto this factor i.e. Payroll, Rent & Utilities and Set Up cost.

Set-up cost: To gather the large amount of funds to start a industry is the toughest task. The start up cost may be investment required for the renewal of machinery, Manufacturing of new product line etc.

Payroll, rent and utilities: As the part of the direct cost, the rent of the land, building, the salaries to employees, labor play an important parameter for the manufacturing industry to study and include while planning the budget.

F5 Other Charges- : Four variables are explained onto this factor Losses due to Scrap, Damage by Natural factors, Breakage and crime, Bad debts and write offs, Depreciation Cost and High machinery Maintenance costs.

7. STRATEGIES TO COUNTER THE FINANCING PROBLEMS

Taking into account the Indian government policies and latest financing options available, the following strategies for financial can serve as better tool to overcome these above studied challenges.

7.1. Factoring

“Factoring Services”, as a concept, is to meet the need for hassle-free post-sale finance to industries, particularly under the SSI sector that pass off as SMEs. Factoring is a flexible form of loan, which advances money to a company as it issues new invoices. Under the fold of “Factoring Services,” Factoring organizations not only provide SMEs with finance, but also offer other services such as:

1. Sales Ledger Administration
2. Debt collection
3. Credit insurance.

Such services could be rendered either by the commercial banks or non-banking financial institutions. A exp is Canara Bank, which has successfully floated a subsidiary entitled CANBANK Factors Ltd. In fact, Canara Bank has also set up another subsidiary for exporting of readymade garments. It is now imperative to popularize the scheme as it is useful and beneficial—both to its clients as well as Financial Institutions.

The benefits are as under:

- i. Helping SMEs in saving time and cost through quicker and improved cash flow
- ii. Treating Factored Debt as an off-balance sheet item
- iii. Flexible terms and quicker sanctions
- iv. Improved and easy returns on funds deployed
- v. Matching the seasonal need of finance to the needs of SMEs
- vi. Developing a network of better quality customers and ready availability of information.

7.2. Debt financing

The vast majority of new small businesses are funded with debt financing via financial institutions. There are two types of financing Short term and long term financing.

Short term financing. Short term debt is any responsibility which must be repay in full within less than one year after the funds were originally borrowed. Trade Credit or account payable- A company can purchase goods from a supplier on credit and pay the supplier later. The supplier may offer a one or two percent discount if the company pays for the shipment within the ten days of receiving it. Company can obtain a short term loan from a bank to finance its business.

Long term debt. Companies use long term loans to finance their long term assets, such as equipment, buildings, and land. With long term loans, companies do not have to renegotiate the loan at inconvenient times and they can get guaranteed or fixed interest rates.

7.3. Grants

If the companies are technology based they can consider securing a grant through the Small Business Administration's Small Business Innovation Research (SBIR) Program. There are also numerous state, regional and minority grant opportunities available. By working together with a government agency in a Cooperative Research and Development Agreement (CRADA), there is a possibility to optimize use of resources and cost-effectively perform research (thus requiring less funding). These programs are designed to help fuel the innovative fires at small businesses.

7.4. Equity financing

Equity financing is a means of financing a venture through giving away equity or shares in your company in return for funding. This means that an outsider investor will own a part of your company to a third party. While debt funding is most common, there are still tens of thousands of companies financed each year by private or "institutional" investors in exchange for an equity ownership stake. They range from the less sophisticated "friends and family" type, to high net-worth private investors known as "angel investors," all the way up to the sophisticated professional investors called venture capitalists.

7.5. Venture capitalists

Money provided by investors to start up firms and small business with perceived long-term growth potential. This is very important source of funding for startups that do not have access to capital markets. It is typically entails high risk for the investor, but it has the potential for above-average returns.

Venture capital can also include managerial and technical expertise. Most venture capital comes from a group of wealthy investors, investment banks and other financial institutions that pool such investments or partnerships. This form of raising capital is popular among new companies or ventures with limited operating history, which cannot raise funds by issuing debt. The downside for entrepreneurs is that venture capitalists usually get a say in company decisions, in addition to a portion of the equity (Investopedia).

7.6. Strategic Investors

Individual or firm that adds value to the money it invests with its contacts, experience, and knowledge of market thus brightening the investee's prospects for additional investment and success. Investor of this type is often intimately involved in some aspect of the business operation, and actively contributes time and talents to help grow the business. Thus in turn increases the financial gains realized by both the strategic investor and everyone else who has a stake in the success of the business enterprise.

Apart from these financing options the government should try to take some others measures so that the SME's would deal with the problems felt by them. Some of the measures are:

- Creating good awareness on the financial programs available to small business.
- Government sponsored programs
- Minimum government regulation and tax
- Quick decision in loan sanction.
- Full transparency of Interest rate, service charges and no hidden cost.
- Consumer protection and education.
- Fostering "Green" and innovative lead growth.
- Encourage Trade fairs to promote handlooms culture in India.

8. CONCLUSION

The MSME sector has often been termed the 'engine of growth' for developing economies. We begin with an Introduction to the manufacturing industry, evolution of the manufacturing industry, an overview of SME's sector in India and look at some recent trends which highlight the development and significance of this sector vis-à-vis the Indian economy.

In the second part of this paper, we do an analysis of twenty financial obstacles faced by SME's. The primary data had been collected from the owners and the board of directors of the small, medium and micro level manufacturing industries in Punjab. After applying the factor analysis the five main financial obstacles of great concern are Ability to meet financial obligation, Price of raw materials, Set up and Plant Cost, Financial Charges and other charges. Therefore the companies should try plan their budget by keeping the above problems in mind so as to deal with them. The results also suggest that perhaps the government should play a facilitator role and improve access to finance by encouraging more banks and other financial institutions to enter the local market, instead of becoming an active player itself. Also, Some other measures like Factoring, venture capital, strategic investors etc. are also suggested which should be taken by the government in order to make the SME's business more competitive and profitable.

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