ISSN PRINT 2319 1775 Online 2320 7876
 UGC CARE Listed ( Group -I) Journal Volume 11, Iss 10, 2022

# PROBLEMS FACED BY MSME SECTOR IN CHENNAI DUE TO DEMONETIZATION

**G. R. Giridharan[1], Dr.S.Yuvaraj[2]**
Ph. D Research Scholar-Part Time, Department of Commerce, University of Madras
Assistant Professor, Department of Commerce, University of Madras

## ABSTRACT

Daily wage workers and major contracts are implemented daily in the MSME sector. Most employees maintain their bank accounts at the place of work. Therefore, the MSME sector and employees were significantly affected. Since the onset of the financial crisis, the MSME s sector is struggling to achieve healthy growth rates and revive the economy. Demonetization was widely implemented to bring transparency and accountability to the people in the political and economic system. Due to demonetization and mis-planning action, some MSMEs closed down their units as sales fell and they faced loss of funds. The three factors namely shortage of money, short term inflation and financial problems show a problems of MSME. The analysis highlighted that male authorities highly rated towards problems of MSME than female authorities. It is found that there is influence of Demonetization on Problems of MSME. For this, the Government should take efforts to create awareness about digitization and provide appropriate cultivation to MSME authorities and their employees to use it.

**KEYWORDS:** Demonetization, Shortage Of Money, Short Term Inflation and Financial Problems.

## INTRODUCTION

The Government of India officially announced on 8 November 2016 the demonetization of high value currency notes of Rs 500 and Rs 1000 with the aim of controlling currency notes, corruption and terrorism financing. It is considered to be the biggest black money laundering campaign in Indian economic history. People will get its benefits only in the long run. However, this sudden move affected the economy due to a huge financial crisis. Due to financial crisis, businesses and traders were unable to meet their daily needs.

Depending on the impact on demand, the action has indirectly or directly affected Indian businesses. But small businesses were more affected by the devaluation because they operated mostly through cash transactions. Labor dependent sectors, mainly construction and agriculture, are the most affected, as most of them are involved in money lending and purchasing of raw materials. Daily wage workers and major contracts are implemented daily in the MSME sector. Most employees maintain their bank accounts at the place of work. Therefore the MSME sector and employees were significantly affected. Since the onset of the financial crisis, the MSME s sector is struggling to achieve healthy growth rates and revive the economy. Growth depends on capital investment for the economy and if there is lack of capital, the growth of MSMEs is hampered. The financial crisis caused by the decline in monetary value restricted the growth of the MSME sector. Therefore, the research attempts to find out the problems faced by MSME sector in Chennai due to demonetization.

ISSN PRINT 2319 1775 Online 2320 7876
 UGC CARE Listed ( Group -I) Journal Volume 11, Iss 10, 2022

## REVIEW OF LITERATURE

Wen Tao Wu, et al. (2022) demonetization was implemented to empower below poverty line customers, promote start-ups and serve the masses. But demonetization also had many negative effects. Overall, the research sheds light on the unintentional penalty on MFIs as a effect of the demonetization event, and it offered policy suggestions for MFIs.

Darshana Medhi (2022) revealed how a cashless society will affect small and medium businesses in India. SMBs faced a lot of difficulties in the cashless environment. The results of this study were obtained by analyzing secondary data using simple statistical approaches.

Manpreet Kaur and Kanwaljeet Singh (2019) responded that the main benefits of demonetization were improved national environment, financial inclusion, improved consumption, less cash economy and investment system. An influential factor determining attitudes towards demonetization is financial inclusion and a less cash economy.

Priti Rai and Devaraj Badugu (2018) discovered that the demonetization implementation led to an instant decrease in the income margin of entrepreneurs within the MSME sector in India. Malarvizhi (2018) discovered that most of the authorities of Small Business Units were despondent about the execution of demonetization because they faced defeat due to cash crunch and had a great crash on their small business activities and their regular of living.

Prithi (2017) stated that the impact of the move varies depending on the Government's decision to demonetize. This article explains the impact of such a move on costs and activity levels, credit availability, and government funding. Veerakumar (2017) found that the demonetization of the premier value notes accepted by the Indian Government came because a big shock to the majority Indian nationals.

Gupta (2017) analyzed the crash of demonetization on MSME sector. The research identified that MSME sector was scarcely strike by demonetization due to their larger dependence on inflexible cash. Frank, et al. (2017) conducted a study among small-scale retailers regarding the impact of demonetization. This study was carried out in the city of Madhya Pradesh. The study found that overall retailers were happy with the demonetization outcome.

Vij (2017) had found that the retail business sector is very badly affected due to demonetization. Small traders were completely dependent on money. Hence, that demonetization impacted retail sector very badly. Gajjar (2016) analyzed the benefits of demonetization through a conceptual study. Black money significantly affects the social, political and economic outlook. The author found that demonetization will curb the problem of black money and demonetization will send a message to the society about the seriousness of the Government.

According to Tiwari and Tiwari (2017) small-scale and cottage industries have gained an important place in the Indian economy. Indian economy depends on its contribution in total industrial production, employment capacity and exports. Large scale businesses are mostly based on cashless transactions and small scale businesses are mostly dependent on cash. Due to this money crisis has arisen. Due to this, small units of money have lost value in the currency exchange process.

Govil (2017) conducted a conceptual study of demonetization. The author found that demonetization would be good for finance and development sectors, while demonetization could have a negative effect on luxury goods, consumer goods, real estate and allied sectors. Demonetization will help in reducing inflation, better tax compliance, eradicating black money and reducing corruption.

Mathur and Arora (2017) claimed that demonetization is a surprise move. Demonetization in the Indian economy affected the consumption activity. Demonetization has affected the Indian retail industry due to lack of liquidity in the economy. The impact of demonetization is felt the most as unorganized retail and small traders are transaction cash.

Shirley (2017) performed a conceptual research to find out the impact of demonetization. The author asserted that less than 5% of the Indian economy is cash in total black money. The Government did not take proper planning during demonetization to reduce the hardships faced by the common man. Demonetization affected the Indian economy, the common man and the international scene.

Jain & Kamath (2017) conducted a conceptual research to identify counterfeit currency, tax non-compliance and criminal activities. Government of India took decision to demonetize some currency notes. Also, Government of India introduced new currency notes. It is also believed that the situation will not change due to demonetization by the government unless the attitude of Indians to pay taxes changes.

Bhattacharyya, et.al (2016) attempted to tackle all the three issues affecting the economy such as counterfeit currency in circulation, parallel economy and terror financing. Those who bought goods at small prices were left without the help of a huge economy. People used to stand in long queues in banks to withdraw money. The research aims to comprehend the impacts of demonetization on small and marginal traders in their daily business and modern ideas that they have undertake to rise above the problem.

Rani (2016) analyzed the benefits of demonetization through a conceptual study. Devaluation was initially negative in the market. But then demonetization led to the adoption of a cashless economy. Demonetization helped people to find new business avenues. Demonetization also helped curb black money.

Limited research has been conducted related to demonetization. Hence, the study attempts to fill this gap by estimating the Problems faced by MSME sector in Chennai due to demonetization. Below are my proposed hypotheses.

**H1:** There is no mean difference towards problems of MSME with respect to gender.

**H2:** There is no influence of demonetization on problems of MSME.

## NEED FOR THE STUDY

The findings of this study will help college management. This study will help MSME sector. This study also will help to identify the problems faced by MSME sector. Findings from this study can help MSME sector reduce problems and increase their performance.

## OBJECTIVES

- To discover the mean difference towards problems of MSME with respect to gender.
- To found the influence of demonetization on problems of MSME.

## MATERIALS AND METHODS

In order to explore the problems faced by MSME sector in Chennai due to demonetization a descriptive research design is employed by the researcher. Data is collected from MSME sector in Chennai through a well-designed questionnaire. This descriptive research design is employed to explore the relationship between the independent and dependent variable.

## QUESTIONNAIRE DESIGN

Data is collected from MSME sector in Chennai, Tamilnadu through a well-designed questionnaire. The questionnaire construction for this study is divided into three parts. The first part of the questionnaire is a demographic profile of the MSME sector, the second part is demonetization, the third part is problems of MSME sector. The first part is set up as a category and the other three as a measuring scaling technique.

**Table 1: Questionnaire Construction**

| S.No. | Variable | Items | Author |
|---|---|---|---|
| 1 | **Demographic Profile** | **10** | **---** |
| 2 | Demonetization | **12** | Self Designed |
| 3 | Problems of MSME | **4** | |

## RELIABILITY

Pilot study was done to confirm that the results of this research questionnaire are reliable. The questionnaires are verified by involving 50 authorities of MSME. Based on the authorities of MSME opinion, some changes are made in the questionnaire. Cronbach's alpha tool is employed to test the reliability. All the variables of this questionnaire are above 0.70. The results show that it is reliable. This means that the questionnaire has a high reliability value.

**Table 2: Reliability of the research**

| S.No. | Variable | Items | Cronbach's Alpha |
|---|---|---|---|
| 1 | Demonetization | **12** | 0.87 |
| 2 | Problems of MSME | **4** | 0.90 |

Source: Primary data

## SAMPLING TECHNIQUE

In this study, purposive sampling technique has been applied to collect the primary data from MSME sector in Chennai. In this way 50 MSME sector are approached to collect the primary data.

## STATISTICAL TOOLS

Independent sample t-test was used to identify the significant difference towards problems of MSME with respect to gender. Regression analysis was employed to identify the influence of Demonetization on Problems of MSME.

ISSN PRINT 2319 1775 Online 2320 7876
, UGC CARE Listed ( Group -I) Journal Volume 11, Iss 10, 2022

**Table 3: Independent sample t test shows mean difference towards problems of MSME based on authorities of MSME**

| Factors | Gender | Descriptive Statistics | | | Independent sample t test | |
|---|---|---|---|---|---|---|
| | | N | Mean | SD | t | p |
| Shortage of Money | Male | 34 | 3.2152 | 0.67207 | 1.178 | 0.239 |
| | Female | 16 | 3.1468 | 0.72515 | | |
| Short Term Inflation | Male | 34 | 3.2149 | 0.49298 | 3.936 | 0.000 |
| | Female | 16 | 3.0626 | 0.39849 | | |
| Financial Problems | Male | 34 | 3.2016 | 0.51751 | 3.004 | 0.003 |
| | Female | 16 | 3.0734 | 0.49276 | | |
| Overall Problem | Male | 34 | 3.2106 | 0.50827 | 2.816 | 0.005 |
| | Female | 16 | 3.0943 | 0.46203 | | |

Source: Primary data

Table 4.3 details the results of the independent sample t test. The table show mean difference towards problems of MSME. The sample size of the research is 50 authorities of MSME in Chennai. The problem of MSME which is the dependent variable of the study is estimated under three factors shortage of money, short term inflation and financial problems. The independent variable is considered from two different gender groups such as male and female.

**Ho:** There is no significant difference towards problems of MSME with respect to gender.

Shortage of money is the first dimension of problems of MSME shows the overall mean score as 3.1906 with standard deviation of 0.69186. Out of 50 authorities of MSME, male authorities have highest representatives. The t value 1.178 and is not significant. It is found that there is no significant difference towards shortage of money with respect to gender of the MSME authorities.

Short term inflation is the second dimension of problems of MSME shows the overall mean score as 3.1600 with standard deviation of 0.46661. Out of 50 MSME authorities, male authorities have highest representatives. The t value 3.936 and is significant at one percent level of significance. The analysis highlighted that male authorities highly rated towards short term inflation of problems of MSME than female authorities.

Financial problem is the third dimension of problems of MSME shows the overall mean score as 3.1554 with standard deviation of 0.51205. Out of 50 MSME authorities, male authorities have highest representatives. The t value 3.004 and is significant at one percent level of significance. The analysis highlighted that male authorities highly rated towards financial problems of problems of MSME than female authorities.

Overall problems of MSME show the overall mean score as 3.1687 with standard deviation of 0.49489. Out of 50 MSME authorities, male authorities have highest representatives. The t value 2.816 and is significant at one percent level of significance. The analysis highlighted that male authorities highly rated towards Overall problems of MSME than female authorities. Govil (2017) found that demonetization would be good for finance and development sectors, while demonetization could have a negative effect on luxury goods, consumer goods, real estate and allied sectors.

The three factors namely shortage of money, short term inflation and financial problems show a problems of MSME. The analysis highlighted that male authorities highly rated towards problems of MSME than female authorities. Govil (2017) found that demonetization would be good for finance and development sectors, while demonetization could have a negative effect on luxury goods, consumer goods, real estate and allied sectors.

**Table 4.4: Influence of Demonetization on Problems of MSME**
**Model Summary**

| **Dependent Variable** | Problems of MSME |
|---|---|
| **Independent Variables** | Demonetization |
| R | 0.929 |
| $R^2$ | 0.862 |
| Adjusted $R^2$ | 0.862 |
| F - Value | 2491.00 |
| P - value | 0.001 |

Source: primary data

Table 4.4 details the results of the regression. This results show influence of demonetization on problems of MSME. The sample size of the research is 50 MSME authorities in Tamilnadu. Demonetization is considered as independent variable. The dependent variable is problems of MSME.

**$H_0$:** Influence of Demonetization on Problems of MSME.

The multiple regression analysis was utilized, to check the framed null hypothesis. In the regression model summary, the calculated P-value is found to be significant at one percent level. Hence, the stated hypothesis is rejected. Hence, it is found that there is influence of Demonetization on Problems of MSME. R value of 0.929 indicates a very strong relationship between Demonetization on Problems of MSME. The $R^2$ is a key output of regression analysis. $R^2$ gives a suggestion of how many data points fall within the results of the line formed by the regression equation. It is found to be 0.862, which is implied that 86.2 percent of the variation on the level of Problems of MSME is explained by the Demonetization.

**Coefficients**

| S.No. | Variables | Un standardized Coefficients | | Standardized Coefficients | t Value | P Value |
|---|---|---|---|---|---|---|
| | | B | SE | Beta | | |
| | Constant | 0.295 | 0.074 | | 3.996 | 0.001 |
| 1 | Demonetization | 0.923 | 0.018 | 0.929 | 49.918 | 0.001 |

Source: primary data

The regression coefficient (Beta) value of Demonetization was 0.929 and the p value indicates significant at one percent level. This is implied that 92.9 percent of the variation on the level of Problems of MSME is explained by Demonetization. This result indicates that Problems of MSME was influenced by Demonetization. Hence, it is found that there is influence of Demonetization on Problems of MSME. Vij (2017) found that demonetization will curb the problem of black money and demonetization will send a message to the society about the seriousness of the Government.

The three factors namely shortage of money, short term inflation and financial problems show a problems of MSME. The analysis highlighted that male authorities highly rated towards problems of MSME than female authorities. Govil (2017) found that demonetization would be good for finance and development sectors, while demonetization could have a negative effect on luxury goods, consumer goods, real estate and allied sectors. It is found that there is influence of Demonetization on Problems of MSME. Vij (2017) found that demonetization will curb the problem of black money and demonetization will send a message to the society about the seriousness of the Government.

## CONCLUSION

Demonetization was widely implemented to bring transparency and accountability to the people in the political and economic system. Due to demonetization and mis-planning action, some MSMEs closed down their units as sales fell and they faced loss of funds. The three factors namely shortage of money, short term inflation and financial problems show a problems of MSME. The analysis highlighted that male authorities highly rated towards problems of MSME than female authorities. It is found that there is influence of Demonetization on Problems of MSME. For this, the Government should take efforts to create awareness about digitization and provide appropriate cultivation to MSME authorities and their employees to use it.

## REFERENCE

Darshana Medhi (2022). Cashless economy: The impact of demonetization on small and medium businesses Enterprises. International Journal of Mechanical Engineering, 7 (2), 309-314.

Devendra Kumar Tiwari & Deepika Tiwari (2017). Effect of Demonetization on Employment Generation in Micro, Small and Medium Enterprises. International Journal of Current Trends in Engineering & Technology, 03(05), 279-284.

Gajjar, N. (2016). Black money in India: Present status and future challenges and demonetization. International Journal of Advance Research in computer science and management, 4(12), 47-54.

Govil, S. K. (2017). Demonetization and its impact on Indian Economy. Journal of Management Values and Ethics, 7(1), 85-88.

Gupta, A.S. (2017). Impact of Demonetization on MSME. International conference on Paradigm shift in World Economies: Opportunities and Challenges Delhi, 102-105.

Jain, S., & Kamath, A. (2017). Demonetization in India and its tax implications. Retrieved from https://ssrn.com/ abstract=2968940, Accessed on March 10, 2019.

Kantiah Alias Deepak & Velaudham. (2019). Marital differences towards Consumer Buying Behaviour. AJANTA, 8 (2), 36-45.

Malarvizhi, V. (2018). Problems faced by Selected Small Business Units in Coimbatore city due to Demonetization. Economic Affairs, 63 (4), 935-939.

Manpreet Kaur and Kanwaljeet Singh (2019). A Study of Perception And Attitude Towards Demonetization With Special Reference To Punjab. Delhi Business Review, 20 (2), 25-33.

Preety (2017). The Benefits and Challenges of Demonetisation in India. International Journal of Emerging Technologies in Engineering Research, 2 (5), 22-27.

Priti Rai and Devaraj Badugu (2018). Demonetization And Its Impact On The MSME Sector. Journal of Management Research and Analysis, 5 (3(1)), 66-69.

Purvi Mathur & Ritu Arora. (2017). Impact of demonetization on the Indian retail industry before and after 10th December, 2016. International Journal of Development Research, 7(7), 13993-13999.

Rani, G. (2016). Effects of demonetization on retail outlets. International Journal of Applied Research, 2(12), 400-401.

Reema Agnes Frank, Alisha, A.F. and Rashmi Kodikal (2017). Impact of Demonetization on the Small Scale Retailers in Moodbidri City. The National conference on ‘Small and Medium Enterprises – Opportunities and Challenges in Digital India’ held at Silicon City College, Bangalore on March 18th.

Ritu Bhattacharyya, Sampurna N and Mehta (2016). Demonetisation –Worst Effected the Small. Traders International Journal of Latest Technology in Engineering, Management & Applied Science, 7, 52-58.

Shirley, M. A. J. (2017). Impact of demonetization in India. International Journal of Trend in Research and Development. 20-23.

Veerakumar, K. (2017). A Study on People Impact on Demonetization. International Journal of Interdisciplinary Research in Arts and Humanities, 2 (1), 9-12.

Vij, D. (2017). Impact of Demonetization on Retail sector. International Proceedings on Paradigm Shift in World Economies: Opportunities and Challenges, Delhi, 86-90.

Wentao Wu, Zhilu Lin, Pejvak Oghazi & Pankaj C. Patel (2022). The impact of demonetization on microfinance institutions. Journal of Business Research, 153, 1-18.