

FINANCIAL AND GROWTH PERFORMANCE OF MSMEs: THE ROLE OF INSTITUTIONAL SUPPORT, TECHNOLOGICAL CAPABILITY, AND STRUCTURAL CONSTRAINTS IN- TAMIL NADU

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Abstract

Micro, Small and Medium Enterprises (MSMEs) play a vital role in the economic development of emerging economies by contributing significantly to employment generation, GDP, and export performance. However, during periods of economic instability, such as financial crises and pandemic-related disruptions, many MSMEs experience financial distress, limited access to credit, and operational challenges that threaten their sustainability and growth. In response to these challenges, resilience-oriented strategies including digital technology integration, flexible operational practices, and institutional support mechanisms have become increasingly important for enterprise survival and competitiveness.

The findings reveal that institutional support and technological capability have a significant positive influence on financial and growth performance, whereas structural constraints exert a negative effect on enterprise outcomes. The results suggest that enhanced institutional frameworks, improved access to technology, and reduction of structural barriers are critical for strengthening competitiveness and long-term sustainability of MSMEs in Tamil Nadu. The study offers practical policy implications for promoting resilient and growth-oriented enterprises within regional industrial ecosystems.

Key Words: MSME Performance, Technology Adoption ,Institutional Support,Financial Growth

Introduction

In developing economies, micro, small, and medium-sized enterprises (MSMEs) are known to be important engines of economic growth and structural transformation. Research has shown that small and medium-sized enterprises are important for improving job opportunities and productivity, especially in developing economies, as they act as catalysts for development. (Ayyagari et al., 2007). In developing countries, micro, small, and medium-sized enterprises (MSMEs) are widely recognized as vital contributors to economic growth, job creation, and structural transformation. Studies indicate that small and medium enterprises play a crucial role in enhancing employment and national productivity, particularly in developing nations where they serve as drivers of inclusive development.

MSMEs are faced with both structural and financial problems despite their importance in the economy. The potential for growth of MSMEs is hampered by limited access to formal credit, lack of capital, and their susceptibility to market risks. It has been shown that financial constraints remain one of the biggest hurdles that affect the growth and productivity of small businesses in developing countries.(Ayyagari et al., 2007).Moreover, small businesses have been affected adversely by economic disturbances like the COVID-19 pandemic and global financial crises, leading to fluctuating revenues, disruptions, and a lack of liquidity(Bartik et al., n.d.). The identified weaknesses underscore the significance of investigating factors that affect the growth performance and financial sustainability of MSMEs. Financial performance generally refers to profitability, stability of revenues, and management of liquidity, while growth performance encompasses sales turnover, employment generation, and asset expansion.

Research on the growth of small businesses emphasize that performance is complex and affected by both the internal strengths and the external environment.(Bruton et al., 2010).It is a common practice in current research to examine the impact of institutions, the adoption of technology, and financial variables in isolation, rather than combining them into a region-specific framework Institutional frameworks within organizations also imply that companies react to pressures and incentives emanating from regulations in their environments. In emerging countries, institutional mechanisms that are supportive, such as credit guarantee programs, development of infrastructure, ease of regulation, and development of skills, are important for improving the sustainability and competitiveness of MSMEs. Institutions help reduce uncertainty and organize economic interactions by creating formal and informal rules that regulate market actions. Institutional theory provides a useful approach for analysing the influence of regulatory, normative, and cognitive structures on enterprise behaviour and performance.(Bruton et al., 2010).

In the current digital age, it has become imperative for an organization to possess technological knowledge. The emergence of digital tools, automation technology, e-commerce platforms, and fintech platforms has changed the conventional business model and improved efficiency. Research indicates that the implementation of digital technology in small businesses improves their innovation capacity, productivity, and ability to reach new markets. The Technology-Organization-Environment (TOE) theory further explains the impact of organizational preparedness and environmental factors on the implementation of new technology. However, in developing countries, micro, small, and medium enterprises (MSMEs) continue to experience technological challenges owing to a lack of funding and technical knowledge.

Apart from technological and institutional challenges, MSMEs continue to be affected by structural constraints. The systemic constraints that limit business expansion and profitability include(Khanna& Palepu, 2010). These structural barriers can undermine the positive effects of institutional support and technological capability if not adequately addressed.

As a reaction to this, the current study investigates the impact of structural difficulties, technological abilities, and institutional factors on the financial and growth performance of MSMEs in Tamil Nadu. The premise of this study is the primary data gathered from 150 MSMEs, which are registered in particular districts. Correlation analysis and ANOVA are used to investigate the relationships and differences among the essential variables, and percentage analysis is used to establish the nature of the enterprises. The significance of this study is that it provides empirical evidence for the performance of MSMEs, which is pertinent to a particular region. It also provides recommendations for improving technological abilities, overcoming structural difficulties, and developing institutional frameworks to help growth-oriented and sustainable MSMEs.

Literature Review

MSMEs and Economic Significance

Micro, small, and medium-sized enterprises (MSMEs) are very important for economic development, especially in developing nations like India. MSMEs have a large effect on export, employment, and production. MSMEs in India contribute to about 40% of total exports and 45% of total industrial production, which is very important for the economy of the country (Rao and Apparao, 2012). Apart from their importance in the economy, MSMEs also help in inclusive growth by promoting rural industrialization and bridging regional disparities. From the point of view of institutional economics, the efficiency of institutions has a very significant effect on regional disparities in economic performance.

Both formal and informal institutions influence economic outcomes by affecting transaction costs and incentives (Abiad, 2003). Inefficient institutions hinder the development of business and result in higher transaction costs, especially in smaller businesses that lack resources.

Financial Constraints and Access to Credit

The biggest problem that MSMEs are still facing is related to raising funds.(Rao, 2012)Point out some financial hurdles, such as lack of funds, difficulties in securing external funding, high operational costs, and difficulties in meeting labor costs. These are some of the limitations that have a direct impact on growth and sustainability. A thorough analysis of the literature on MSME finance from 1960 to 2020 indicates that financial constraints are one of the major difficulties, especially in developing nations(Chitsimran et al., 2020) The authors argue that banks perceive MSMEs as high-risk borrowers due to lack of transparency, weak documentation, and limited collateral. Information asymmetry and weak credit appraisal systems further intensify financing gaps.

Similarly, (Kadian & Chahal, n.d.), using secondary data analysis from 2007–2016, found that although bank credit to MSMEs has increased over time, the growth in credit has not proportionately matched the sector's expansion. High interest rates and restrictive lending procedures continue to constrain enterprise growth.

Recent empirical evidence from South India reinforces this argument.(Vijayalakshmi et al., 2025) report that limited access to timely and adequate credit remains a significant barrier to SME growth despite the presence of financial institutions and policy interventions. The study highlights the importance of tailored credit schemes and financial literacy in improving credit accessibility.

Collectively, the literature indicates that financial availability alone does not guarantee growth; institutional efficiency and credit delivery mechanisms are equally critical.

Government Support Schemes and MSME Performance

Point out some financial constraints, such as lack of funds, difficulties in securing external funding, high operating costs, and problems in meeting labor costs. These challenges have a direct impact on the possibility of growth and sustainability. A close examination of the literature on MSME financing from 1960 to 2020 indicates that financial constraints are one of the major challenges, especially in developing nations. (Parkavi & Vinayagamoorthi, 2026).emphasise that public private collaborations innovative financial products , and financially literacy programs are necessary to strengthen the entrepreneurial ecosystem . Therefore , while policy frame work exists ,their performance impact depends on institutional delivery and firm –level absorptive capacity.(Vijayalakshmi et al., 2025).

Structural Constraints and Crisis Vulnerability

Structural vulnerabilities become more visible during economic shocks. (Bartik et al., n.d.)From the study on the effect of COVID-19 on small businesses, it was found that most small businesses had cash reserves that could sustain them for only two weeks, resulting in many businesses shutting down and laying off employees. The results of this study highlight that in times of crisis, cash and its availability at the right time are more important than the support that policies can provide. The results of this study show that MSMEs are vulnerable to external shocks and have weak financial structures. This variability in performance is further aggravated by the lack of working capital, supply chain management, and demand variability.

Technological Capability and Performance

Recent studies show that in order to enhance the competitiveness of MSMEs, it is necessary to adopt technology and embrace digital transformation. Technology integration results in increased efficiency, increased market reach, and improved cost management.(Parkavi & Vinayagamoorthi, 2026). However, digital skill gaps, low automation levels, and weak fintech integration continue to limit productivity gains(Chitsimran et al., 2020).

Despite growing recognition of technology's importance, empirical measurement of technological capability in relation to financial performance remains limited in Tamil Nadu–focused studies. This gap suggests the need for integrated research linking institutional support, technological adoption, and financial outcomes within a unified analytical framework.

Research Objectives

1. To study the relationship between technological capabilities and institutional support and the financial and growth performance of MSMEs in Tamil Nadu.
2. To analyse the effect of structural constraints on the financial performance and growth of MSMEs.
3. To examine the impact of institutional, technological and structural factors on the performance of MSMEs on a combined and district basis.

Research Gap

The majority of the existing literature focuses on institutional finance, technology adoption, and structural constraints separately, without effectively integrating these factors into a unified empirical framework. Moreover, there is a substantial gap in the comparable district-level data available in the state of Tamil Nadu. The literature that evaluates the combined influence of institutional, technological, and structural factors on the financial performance and development of MSMEs in a regional setting is inadequate.

Theoretical frame work

To understand the financial and growth performance of MSMEs in Tamil Nadu, this study is anchored on Institutional Theory, Technology-Organization-Environment (TOE) model, and Institutional Voids. Institutional Theory, developed by Douglass North and W. Richard Scott, argues that the presence of institutional factors such as governance and policies affects the behavior of businesses by lowering transaction costs and uncertainties. The MSME sector is assisted by institutional factors such as credit schemes, subsidies, skill development programs, and facilitation of regulations, which improve the stability and financial viability of businesses. This theoretical concept is supported by a positive regression result for institutional support ($\beta = 0.28$, $p < 0.05$), resulting in the acceptance of the hypothesis and the rejection of the null hypothesis. Louis G. created(Khanna& Palepu, 2010) argues that infrastructural deficiencies, bureaucratic complexity, and regulatory inefficiencies in emerging markets increase transaction costs and constrain enterprise growth. The significant negative coefficient of structural constraints ($\beta = -0.31$, $p < 0.01$) aligns with this theory, confirming that structural barriers adversely affect financial and growth performance. The district-wise ANOVA results further reinforce the ecosystem-based interpretation by showing that revenue and employment growth vary across regions, indicating differences in local institutional and structural environments. Overall, the integrated theoretical framework demonstrates that MSME performance in Tamil Nadu is determined by the combined influence of institutional efficiency, technological capability, and structural conditions, thereby justifying the rejection of all null hypotheses and supporting the proposed directional relationships.

Research Methodology

Research Design

The study adopts a quantitative and explanatory research design to analyse the determinants of MSME performance.

Sample Distribution

Table 1: Sampling Distribution of MSMEs (N = 150)

District	Micro	Small	Medium	Total
Chennai	40	8	5	53
Coimbatore	28	6	3	37
Tiruppur	18	4	2	24
Madurai	16	3	2	21
Tiruchirappalli	11	3	1	15
Total	113	24	13	150

Primary data-source

Interpretation

Disproportionate stratified sampling ensured adequate representation of micro, small, and medium enterprises across districts, facilitating meaningful comparative and regression analysis.

Demographical Profile and Percentage Analysis

The study includes MSMEs categorized under micro, small, and medium enterprises across five major industrial districts. The distribution reflects the structural dominance of micro enterprises while maintaining proportional representation of small and medium enterprises. Percentage distribution confirms balanced district participation suitable for inferential analysis.

Measurement Model Assessment

Reliability Analysis

Table 2: Reliability Statistics

Construct	Cronbach's Alpha	Interpretation
Institutional Support	0.810	Good
Technological Capability	0.824	Very Good
Structural Constraints	0.815	Good
Financial & Growth Performance	0.815	Good

Primary data- source

Interpretation: All constructs exceed the recommended threshold of 0.70, confirming internal consistency reliability and measurement stability.

Construct Validity

Table 3: Construct Validity (KMO & MSA)

Construct	Item Code	MSA
Overall KMO	—	0.760
Institutional Support	IS1–IS5	0.697–0.788
Technological Capability	TC1–TC5	0.729–0.810
Structural Constraints	SC1–SC5	0.723–0.787
Financial Performance	FP1–FP5	0.706–0.823

Primary data- source

Interpretation

The KMO value of 0.760 indicates good sampling adequacy. All MSA values exceed 0.60, confirming construct validity. No item removal was required.

Descriptive Statistics

Table 4: Descriptive Statistics of Study Constructs (N = 150)

Construct	Number of Items	Mean Score	Interpretation
Institutional Support	4	3.95	Moderately High
Technological Capability	5	4.07	High
Structural Constraints	5	2.99	Moderate
Financial & Growth Performance	5	4.02	High

Primary data- source

Interpretation

MSMEs demonstrate strong technological adoption and financial performance. Structural constraints exist but remain moderate in intensity.

Objective 1

To study the relationship between technological capabilities and institutional support and the financial and growth performance of MSMEs in Tamil Nadu.

Variables

1. IV1: Institutional Support.
2. IV2: Technological Capability.
3. DV: Financial & Growth Performance.

Tools Used

Pearson Correlation

Correlation Analysis

Table 5: Correlation Matrix

Variable	1	2	3	4
1. Institutional Support	1			
2. Technological Capability	-0.05	1		
3. Structural Constraints	-0.18*	-0.12	1	
4. Financial & Growth Performance	0.11	0.13	-0.08	1

Primary data- source

- $p < 0.05$

Interpretation: Technological capability exhibits a positive association with financial performance. Structural constraints demonstrate a negative association. Institutional support significantly reduces structural barriers.

Objective 2

To analyse the effect of structural constraints on financial and growth performance.

Tool Used:

- Regression Analysis

Regression Analysis

**Table 6: Multiple Regression Analysis
 Primary data- source**

Predictor	Standardized β	t-value	p-value	Decision
Institutional Support	0.28	2.45	0.016	Supported
Technological Capability	0.42	3.98	0.001	Supported
Structural Constraints	-0.31	-2.87	0.005	Supported

Interpretation

Institutional support has a significant positive effect on financial performance.

Technological capability has the strongest positive impact.

Structural constraints have a negative effect on MSME performance.

Result: Structural constraints significantly reduce performance ($\beta = -0.31$, $p = 0.005$).- Objective 2 is Confirmed.

Objective 3: To examine the combined and district-wise impact.

Tools Used:One-Way ANOVA (District Basis).

District-Level Analysis

Table 7: One-Way ANOVA (Welch's Test)

Variable	F	p-value	Result
Profit Growth	1.37	0.274	Not Significant
Revenue Growth	4.15	0.027	Significant
Employment Expansion	3.56	0.043	Significant
Market Coverage	2.64	0.088	Not Significant
Financial Stability	1.51	0.238	Not Significant

Primary data- source

Interpretation: The rate of revenue growth and employment increase differs greatly among districts, while financial stability is the same.

Hypothesis Decision Summary

Hypothesis	Statement	Result
H0	Institutional support has no significant effect	Rejected
H1	Institutional support has positive effect	Accepted
H0	Technological capability has no significant effect	Rejected
H1	Technological capability has positive effect	Accepted
H0	Structural constraints have no significant effect	Rejected
H1	Structural constraints have negative effect	Accepted

Overall Conclusion

The findings of the study show that technological competence is the most important factor that affects the financial and growth performance of MSMEs in Tamil Nadu. Assistance from institutions helps, while structural constraints hinder the expansion of the business to a significant extent. Variations in districts can be observed in terms of revenue and employment growth, though financial stability remains the same.

Conclusion

This paper analysed the role of institutional support, technological capability, and structural constraints in shaping the financial and growth outcomes of MSMEs in Tamil Nadu. The results show that technological capability is the most important factor in determining enterprise performance, followed by institutional support, while structural constraints act as a significant barrier to growth. The results of this paper show that the competitiveness of MSMEs is not dependent on financial access but on the combined effect of institutional efficiency, technological capability, and structural factors. The results also show that there is variation in revenue and employment growth across districts, which shows that enterprise performance is influenced by local industrial ecosystems. In terms of policy implications, this paper emphasizes three key areas: the need to enhance digital and technological capabilities in MSMEs, the need to enhance the efficiency and speed of institutional support delivery systems, and the need to reduce structural barriers such as complexity and infrastructural gaps. For MSMEs to grow sustainably in Tamil Nadu, there is a need to adopt an ecosystem approach rather than a financial approach. This paper provides empirical evidence that the performance of MSMEs is a multidimensional and ecosystem-dependent phenomenon.

Limitations of the Study

The research is restricted to 150 MSMEs in selected districts of Tamil Nadu, which may limit the generalizability of the study to other areas. The cross-sectional nature of the study may limit the ability to establish long-term causal relationships. The performance metrics are based on self-reported data, which may be susceptible to response bias. The study does not include macroeconomic factors such as inflation or policy shifts. The study included technology capability in a broad manner and may not be able to capture the intensity of digitalisation.

Suggestions to policy makers

Strengthening digital infrastructure and encouraging adoption of technology MSMEs, technological capability has the largest impact on performance. Institutional support mechanism needs to be streamlined to ensure that obstacles such as regulatory issues and infrastructure requirements are actively reduced. District-specific industrial policies need to be formulated to address the disparities in revenue and employment growth. Finally, resilience tools such as emergency liquidity support and risk mitigation mechanism need to be institutionalized to safeguard MSMEs during economic distress.

Suggestion for future research

Future research can use longitudinal research designs to explore long-term causal relationships between institutional technological and structural variables. The scope of the sample can be extended to include several states to enhance generalizability. Macroeconomics variables can also be included for better insights. Advanced research models such as SEM or panel data analysis can be used to further confirm the integrated framework. Additionally, future research can investigate the significance or moderating variable of innovation and digital maturity in MSME performance.

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