

# MSMEs in India: The Demographics & Structural Changes

*ISED Discussion Paper*

by  
ISED Small Enterprise Observatory  
*jointly with*  
ISED Centre for Enterprise Development



Institute of Small Enterprises and Development

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**About 'ISED Discussion Paper' Series**

This monograph forms part of the '*ISED Discussion Paper*' series of the Institute. Brought out by ISED Small Enterprise Observatory (ISED-SEO), the Institute's knowledge platform, titles under this Series are meant to offer a platform for discussion on some of the latest developments in the economy and society. The contents of this document may be used for debates and discussions, as also for preparation of course materials, but with due acknowledgement only.

## Preface

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Knowledge base and knowledge systems are often beyond the comprehension of bureaucrats and politicians in developing countries. However, Data collection, preservation and dissemination are vital for all planning and administrative purposes. A total review of the database management needs to be undertaken, with particular emphasis on the its utility for current 'management decision's of the various stakeholders, providing for utmost openness and timeliness. Keeping critical, non-classified, data under cover is not conducive to democratic policy development. Development of a clear cut data policy needs to be considered in the Indian contest.

The purpose of this Discussion Paper is to bring to light some of the least known aspects of the subject. It is also meant to initiate a wider discussion on the subject so that it may contribute to public policy and strategies.

This paper is the outcome of a project at the Institute of Small Enterprise and Development. The study was initiated by the ISED Center for Enterprise Development, jointly with the ISED Small Enterprise Observatory. The support extended by the research team of the two Centers is gratefully acknowledged.

Cochin

February 23, 2017

P.M.Mathew

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## Abstract

*A proper understanding of business demography is a sine qua non for development of meaningful enterprise development policies and strategies. However, in many developing countries, this vitality has not been properly understood by planners and policy makers. The difference between economic governance and public administration often underplayed or misunderstood, and the so-called "data" become a tool in the hands of amateur bureaucrats. While data collection, preservation and dissemination are vital for planning and administrative purposes, it need to be considered as an intermediary stage in the process of knowledge creation.. A total review of the database management system needs to be undertaken, with particular emphasis on the its utility for current 'management decision' of the various stakeholders, providing for utmost openness and timeliness. Keeping critical, non-classified, data under cover is not conducive to democratic policy development which the government has already commenced in a big way. Development of a clear cut data policy needs to be thoroughly debated in the Indian context.*

*Key words: Data, knowledge base, business demography.*

## 1.0. Introduction

While the importance of SMEs has been highlighted in official policy documents, India has not got developed a flawless monitoring system for periodic review of key demographic variables. An effective demographic recording system, apart from the point of view shaping meaningful development policies and strategies, is critical for international comparison of India's position relating to MSMEs. The purpose of the following discussion is two-fold: First, it seeks to introduce the critical demographic variables to the non-professionals. Secondly, India's cultural practices relating to management of a business demographic system is discussed. Thirdly, it looks into the critical gaps and makes suggestions on the way forward.

## 2.0. Why Business Demography ?

Creation of new businesses is globally accepted as central to labor market policy and practice. New businesses are considered as a source of new incomes and employment opportunities. Especially in a context of regional th policy, this is very important, because, the success of governments with regard to provision of income opportunities to the local people, is decided by the pace of new business creation.

Not only that new businesses are increasingly created, it is also important to sustain them . Hence, the attention of policy moves forward to strategies for maintaining the existing stock of enterprises healthy. Morbidity of the enterprises and of the enterprise system, are key areas of concern today. Governments, therefore, will have to constantly monitor the conditions by which the health status of enterprises remain stable .Such monitoring can best be done, only with a close look at the demographic variables. This is especially true in a context where the

financial institutions have to increasingly adhere to prudential norms in shaping their lending policies.

## 3.0. Meaning, Scope, and Methodology

'Business demography' or 'enterprise demography' is rather a completely neglected area of research in India. However, its relevance is increasingly appreciated in discussions relating to enterprise development. The purpose of our discussion here is to introduce the basic tools and techniques in this context, and to examine their usefulness for enriching our understanding of the enterprise scene in the country and in Kerala.

The concept of 'business demography' covers:

- Events in the life cycle of an enterprise, such as births and other creations of enterprises, deaths and other cessations of units, and their ratio to the business population;
- The follow-up of enterprises over time, thus offering information on their survival or discontinuity; and
- The development, over time, of certain characteristics like size, thus offering information on the growth of enterprises, or a cohort of enterprises, by type of activity.

In short, business demography statistics presents data on: 1) the active population of enterprises; 2) their birth; 3) survival (followed up to a specified period after birth); and 4) death.

There are two crucial aspects of business demography that are relevant for shaping policies and strategies for enterprise development: 1) growth behaviour; and 2) distributional aspects of growth.

The term, 'growth behaviour' implies, the changes that

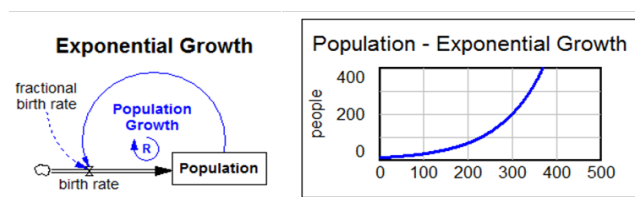
### Publishing Business Demography: Measure of Good Governance

The strategic role of business demography in policy formulation and shaping of strategies, has been well recognised by most progressive governments today. The Canadian government brings out, in addition to its annual Business Register, a comprehensive monthly document called 'Key Small Business Statistics'. In Japan, the White Paper on SMEs is brought out annually and debated in the Diet. In U.K, in addition to the specific Statistical Reports on SMEs, the 'Conduct and Competition in SME Lending Report', which deals with the SME linkages of the financial system, is also tabled and debated in the Parliament. In the USA, The Small Business Administration having mandatory powers, brings out its comprehensive Annual Report on SMEs.

have taken place in the overall stock as also the net stock of enterprises over a period of time. This explains the direction of change, but not the qualitative aspects of that change. The distributional aspects of the demography, on the other hand, explains how the change has happened in relation to the spatial distribution, as also the distribution among different social categories and economic strata of entrepreneurs. Both autonomous and policy induced factors can be instrumental in the changes as it happens over time. It is necessary to delineate these factors from the point of view of shaping policy and strategies. While the aspect of growth behaviour will be discussed in the next section, the distributional aspects will be treated in the latter part of this note.

Enterprise demography explains the dynamics of enterprise structure. Enterprises cannot be created simply through policy measures. The limited role of public policy is to make available the right incentives and market signals to the private entrepreneurs. These incentives and signals will remain clear to the business community only if the demographic variables are properly analyzed, and the changes therein are monitored on a continuous basis.

**Figure 1: Population Growth**



The term "business demographics" (or enterprise demography), is used here to create analogies with the demographics of individuals. Unlike counting people, tabulating the number of businesses is not as clear-cut, because the definition of what constitutes a business is not explicit. When an individual is born, a birth certificate is filed. When a firm is born, start-up papers may or may not be filed or even required. In other cases, businesses may actually file start up documents, but may not begin functioning as a firm. Likewise, when a business ceases to

exist, documentation may not always follow, or may follow years later. Added to this, the complexities of merger and acquisition activity, joint ventures, part ownership and cross-ownership, and the task of counting firms becomes quite difficult.

There are many ways to characterize exactly which set of entities comprise the population of businesses. For example, one way to define a business is whether it actively trades goods or services. However, if a firm indeed exists, but sells no product, it will be excluded from the set of businesses under this definition. One such example is a firm whose products are only in the development stage. Another criterion is, whether a firm files a business tax return. This, too, may be imperfect because many inactive or out-of-business firms are required to document themselves to tax authorities, even when no business is transacted during the tax period.

Demography encompasses the study of the size, structure and distribution of population, and how population changes over time due to births, deaths migration and ageing. Likewise, business demography data presents the "stocks and flows" of enterprises as an indicator of business dynamism in a given sector and economy. In addition to the population of active enterprises, the births, survivals and deaths of enterprises are recorded. Genuine births and deaths are such subsets of the wider concepts of enterprise creations and cessations. A creation is considered as a birth, only if the enterprise is created from scratch. Equally, a cessation is considered a death, only if it is actually closed down and ceases activity. An enterprise is alive as long as it shows activity in terms of employment and / or turnover.

A 'system dynamics model' helps us to understand the complexities of demography better. It is an approach to modeling systems that emphasize their feedback loops, and is particularly well suited to modeling problems like enterprise sustainability. A sample model, simplest of its kind, is graphically presented below:

The two variables, *population* and *birth rate*, form a