

# **MSMEs in the Subsector Kaleidoscope**

*by*  
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&  
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### **About 'ISED Policy Briefs' Series**

Brought out by the Institute's knowledge platform, the ISED Small Enterprise Observatory, titles under this Series are meant to stimulate a discussion on some of the latest developments in the economy and society. The contents of 'ISED Policy Briefs' emerge largely from the findings and experience of research work at the various Knowledge Centers of the Institute of Small Enterprises and Development. They are meant to be a backgrounder for policy debates and discussions at various levels.

# Preface

The Pandemic COVID-19, which has triggered disruption in lives and livelihoods globally, obviously, re-shapes the present as also the future of economies and of humanity as a whole. However, it is a challenge and opportunity for humanity to outlive such constraints. Shaping new development strategies and promotion of enterprise and entrepreneurship alone can be the solution to this impasse. That means, we need to start speaking of the impacts at the “bottom of the pyramid”, and plan for broad basing the mass base of entrepreneurship.

Under the India MSME Communication Programme(IMCP), the ISED Small Enterprise Observatory, in co operation with the various Knowledge Centres of the Institute, makes a rigorous analysis of the latest currents in the MSME constituency, leading to a unique ‘Development Report’. This study is a spill-over of this exercise of Development Reporting on micro, small and medium enterprises (MSMEs) at the ISED.

While the team of the Observatory did a meticulous job under the guidance and support of the Project Leaders, individual members of the Team, including the editors and the Associates, have made their special contribution in specific thematic areas. While this title is significant in the present context of the Indian economy, and of the MSME developments in specific, I hope it will contribute to wider discussions in the subject area.

As this title comes out as a joint output of the Observatory and the ISED Centre for Enterprise Development, the Institute wishes to thank, without fail, the pains and efforts of the authors, and all who have supported it through inputs and suggestions. ISED has taken best efforts to ensure the quality and reliability of this paper. However, for the findings and views, the authors alone are responsible.

Cochin,  
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# MSMEs in the Subsector Kaleidoscope

## Abstract

*In most discussions on SME development, the critical constraints of such enterprises come to the fore. Beyond problems, there are significant latent opportunities that are specific to enterprises having particular features. 'Subsector' is a significant dimension of SME performance and prospects, having substantial and analytical relevance. While the concept of 'subsector' is broader than the beaten-track idea of 'industry', it is important to typologize subsectors based on their distinct economic and social aspects. Such a spotlight, with special thrust on MSMEs, is important from the key angles of social policy, ie., employment promotion and regional development. This paper takes forward its discussion in relation to subsector typologies. It moves forward in relation to the evolving technology- business interface and market penetration that explains the performance and prospects of particular subsector categories.*

KEY WORDS: subsector, typologies, MSME.

## 1.0. Introduction

Size-based categorisation of enterprises is often considered as a convenient method of understanding and analysis and of targeting public programmes. While, from the point of view of programme implementation, this offers some convenience, for analytical purposes, the results often get blurred, or become too mechanical in nature. For meaningful policy making, there needs to be an understanding of MSMEs as part of a 'total system', rather than as stand-alone entities. The purpose of our discussion, in the following pages, is to offer 'subsector' as an alternative analytical approach for understanding and analysing the MSME space in the Indian context. The discussion also specifically looks into the relevance of this approach in the context of the emerging paradigm of Industry 4.0, where MSMEs show an enhanced tendency of getting vertically and horizontally integrated. Global value chains are decisive in shaping their destinies. Where are these enterprises placed in the global value chain? How are they impacted by the changes in tastes and preferences of consumers globally? Beyond stand-alone concepts and entities, a subsector understanding and analysis can offer meaningful answers to these questions.

## 2.0. Conceptual Framework

The term 'subsector' implies both a system as well as an analytical approach. A 'subsector' does not refer to a component of an individual sector of the economy. It includes a set of economic activities that cuts across several sectors, traditionally agricultural, industrial and commercial sectors, and now electronics and I.T

The term 'subsector' needs to be approached in relation to its four pillars: 1) a set of activities; 2) related setoff rules governing those activities; 3) a conceptual way of viewing problems of economic organisation; and 4) a way of organising research, in order to understand the totality, as also the interrelationships among the components.

The 'subsector approach' is a "systems" approach to the study of economic activity, where, the emphasis is on the interdependence of economic units, particularly those involved in the process of production and distribution. Interdependence plays a central role in understanding the dynamics of change and evolution. It can also be used as a tool for comparative static analysis, examining the implications of alternative development patterns, policy changes, strategies, external influences or project interventions. In short, it enables a particular enterprise activity to be seen and analysed in terms of its totality, and thereby, making development and implementation of policy and strategies easier and meaningful.

There are five key concepts behind any subsector analysis: 1) verticality; 2) effective demand; 3) coordination with channels; 4) competition between channels; 5) leverage. Likewise, subsector performance has various dimensions: 1) approach to efficiency, equality, and progressiveness; 2) synchronisation of exchange efficiency and transaction cost; 3) adaptation dynamism; 4) progressiveness; and 5) access to market and to information. While the small and large enterprises belong to two layers of the total productive system, the conceptual and operational logic remains almost the same, irrespective of their size differences.

### What is a Subsector?

In Industrial Economics and Management, the terms such as industry, enterprise, sector, and subsector have often been used without knowing their precise meaning. Apart from context, the meanings vary from person to person. 'Subsector' is a term used in Development Practice. It implies both a system as well as an analytical approach, covering a set of economic activities that cuts across several sectors of the economy. The term 'subsector' has four pillars: 1) a set of activities; 2) related set of rules governing those activities; 3) a conceptual way of viewing problems of economic organisation; and 4) a way of organising research, in order to understand the totality, as also the interrelationships among the components.

The subsector approach enables a particular enterprise activity to be seen and analysed in terms of its totality. This makes development and implementation of policy and strategies easier and meaningful. Usages like 'MSME-dominant subsector', implies a spotlight on MSMEs within a subsector, where both large and small units coexist.

### 3.0. Sub-sector in the MSME Context

The theory of economic development tells us that, as the economy grows, a transition from manufacturing to services take place (Kuznets, 1955). While this is a general trend under mature capitalism, the Indian experience during the last half a decade stands out. Growth of self employment, and of the service sector, have happened largely because of distress, or risk-averting behaviour of the entrepreneurs, which in fact, needs much closer analysis. While in the MSME sector, for all practical purposes, manufacturing and service activities are often inter-twined, and it is quite difficult to distinguish between them, there are some broad patterns and leads of the growth of the sector that provide indications on the changes under way. The distinction between, "opportunity entrepreneurship" and "necessity entrepreneurship", popular in the recent semantics of development, has great relevance in influencing entrepreneurial decisions. In a case where the return on manufacturing is lower than that on services, entrepreneurs will have a tendency to opt for the latter. But, there is also a question of long term expected returns and short-term returns which influence choices. How this trade-off takes place, depends both on objective and subjective factors. Economists and Anthropologists of the Marxist tradition have coined the term 'rentier ownership', which, in short, means reaping high benefits with minimum risk, such as is the case with intermediaries or brokers. A rentier state is dependent on natural resources and its exports, rather than using the people and their capabilities as a significant resource. The oil rich MENA countries are classic examples of this phenomenon where income from natural resources tend to act as disincentives for the development and

use of human capabilities. This significant distinction is helpful in understanding and contextualizing 'services' as against 'manufacturing'. The reason is that, while services can be an entrepreneurial activity, it need not necessarily be so.

MSMEs have the increasing compulsion of being part of the global value chains. As manufacturing is increasingly becoming global, MSMEs need to equip themselves well with particular subsectors, as part of the corresponding value chain. Manufacturing today requires a logic built around a subsector for its sustainability and growth. The various functions of manufacturing, on the other hand, should meet the associated supply chain requirements.

According to the Global Competitiveness Report 2008-2009, an inadequately trained workforce was a highly rated problem-factor in doing business in the US, the UK, and many other European countries. In comparison, this is not a major concern in developing markets such as China, India and South East Asia. According to its latest report, for the year 2019, the United States is less competitive than it was a year ago and the global economy remains hobbled by low productivity despite a decade of cheap money from central banks. There are three noteworthy current global business trends: 1) increasing globalisation of the world economy; 2) expansion of the knowledge-based economy; and 3) greater reliance on knowledge-based services. These changes make the production structure essentially global. Collective efficiency, rather than firm-level capabilities, are decisive in determining sustainable growth impact in business today.

Manufacturing, today, is increasingly driven by knowledge. An understanding of the knowledge