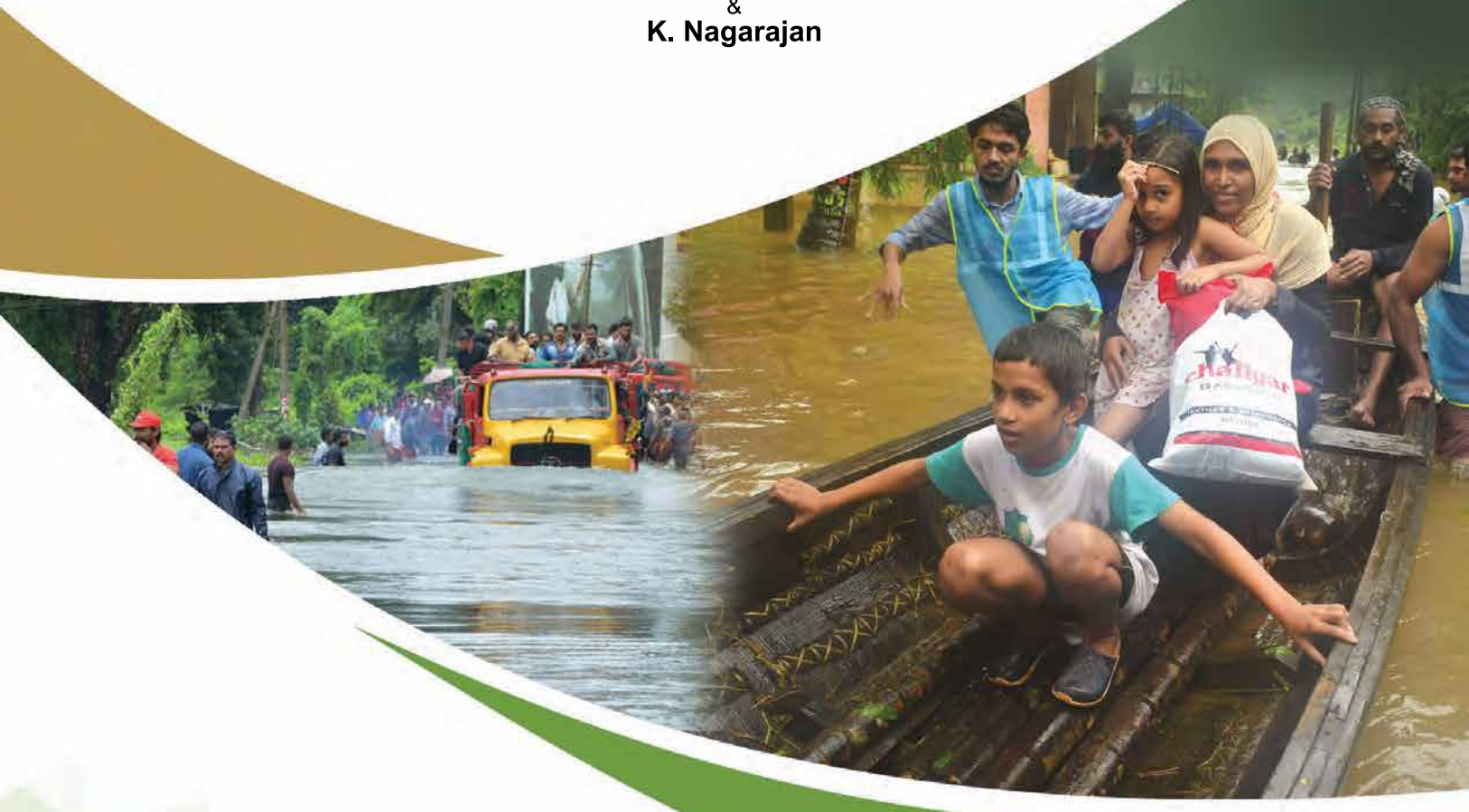


ISED Policy Brief

# 'Enterprise Security' in India: The Emerging Picture of MSMEs

by  
P.M. Mathew  
&  
K. Nagarajan



**Institute of Small Enterprises and Development**

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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.

‘Enterprise Security’ is a new conceptual addition to the semantics of development studies. It refers to the challenges of maintaining an enterprise, healthy and robust, thereby providing sustainable incomes and employment opportunities. It is a concept, complementary to the now-well known concepts of ‘livelihood security’ and ‘sustainable development’. It investigates the heightened vulnerability of enterprises, to some external stresses, which may be due to natural processes and phenomena as well as to unsustainable social activity.

The dimensions of ‘enterprise security’, as a holistic concept, are broadly of two forms: a) internal; and b) external. It is important to note that, public policy platforms, so far, have focused on internal aspects of enterprise security. There is need for a new approach and policy framework. The issues of MSME development need to be viewed in terms of a ‘total system approach’, rather than trying to find solutions for individual problems. The time has come for a radical departure from the beaten track. It is, therefore, important to spell out the key concerns of entrepreneurship and enterprise security, so that, the opportunities and threats around them can be pin-pointed.

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 come 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,  
August 20, 2020

P.M.Mathew  
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# 'Enterprise Security': The Emerging Picture

## Abstract

The concept of 'enterprise security', as it was originally coined in the year 2013 by the ISED, has triggered a significant examination and debates in various circles. While 'entrepreneurship' is a critical social resource, and 'enterprise' is the visible manifestation of the creativity and drive of millions of people in an economy, it is important to preserve such resources and capabilities through well-structured policies and strategic interventions. In this context, it is important to meticulously understand, follow, and initiate corrective steps to reduce the implicit vulnerabilities. The case for a security approach to enterprise development and entrepreneurship would require the 'structural' and 'life cycle' aspects of enterprises in the Indian economy. This research attempts to situate the theoretical and operational aspects of 'enterprise security' in the context of India's current economic slowdown. It advocates important structural changes under a concept of 'Pentagon Initiative'.

KEY WORDS: enterprise security, Pentagon Initiative, entrepreneurship resources, SME.

## 1.0. Introduction

Even with the best of public policy initiatives, SMEs in the rapidly changing modern world, are prone to several forms of vulnerability. It is, therefore, important that the vulnerability effects on SMEs are examined and analysed closely. While policy would, obviously, focus on long-term objectives of sustainable enterprise development and employment promotion, strategy need to be specific. The following discussion is grounded on a relatively new concept, i.e., 'enterprise security'. What are the salient aspects that explain the problem of security/insecurity? It is important to pin-point these aspects in concrete terms. For this purpose, it is necessary to situate the discussion against the "triple-bottom line", principle which guides the global agenda of sustainable development today. Such a discussion also needs to be taken forward in relation to enterprise structure and measurability, so that it becomes, at a time, a theoretically sound and operationally meaningful exercise.

## 2.0.' Enterprise Security': the Conceptual Base

While wage employment and self employment are the two key options available in the labour market, what is the degree by which people choose between the two? It depends on: a) subjective perception on risk/ return ; and b) the objective reality of economic and social factors that define 'security'. In labour market analysis and policy, one need to analyse the individual choices, as also the systemic features that can explain the situation, and to shape strategies.

In a 'systems approach', self employment cannot be created simply on a 'welfare' mode. It needs to be discussed under specific 'Framework Conditions(FCs)'.

Framework conditions are those conditions that enhance (or hinder) new business creation and entrepreneurship. In the methodology of the 'Global Entrepreneurship Monitor(GEM)', these conditions are known as Entrepreneurial Framework Conditions (EFCs).EFCs are one of the most important components of any entrepreneurship ecosystem and constitute "the necessary oxygen of resources, incentives, markets, and supporting institutions for the creation and growth of new firms" (Bosma et. al., 2008: p. 40). What is needed is to create systems and to ensure that these systems work in a sustainable manner. It is in this context that the concept of "enterprise security" become relevant.

The processes by which self employment germinate and grow, however, have not gained considerable attention in academic and policy circles. According to Rabellotti(2004), official statistics record a tremendous diversity in the level and dynamics of the self-employment rate across countries. Such diversity is even more pronounced for developing countries than for industrial countries. In these countries, self-employment figures may represent evidence of the spark of an emerging entrepreneurial class still in its infant stages, or conceal marginal urban manufacturing employment at the mere level of subsistence and disguising actual unemployment in years of economic depression.

The results of Rabelloti's research, as above, generally confirm a negative association between the rate of self-employment and the stage of development: According to him, self-employment would tend to disappear with the development process. However, his study suggests that, some cases self-employment are also related to high value-added manufactured exports, representing a dynamic and emerging form of entrepreneurship. To



Box No: 1

### What are Entrepreneurship Framework Conditions?

Self employment cannot be created simply on a 'welfare' mode; they need to be nurtured under specific 'Framework Conditions(FCs)'. Framework conditions are those conditions that enhance (or hinder) new business creation and entrepreneurship. In the methodology of the 'Global Entrepreneurship Monitor(GEM)', these conditions are one of the most important components of any entrepreneurship ecosystem. They constitute "the necessary oxygen of resources, incentives, markets, and supporting institutions for the creation and growth of new firms" (Bosma et. al., 2008). What is needed is to create systems and to ensure that these systems work in a sustainable manner. It is in this context that the concept of "enterprise security" become relevant.

this aim, self-employment would not be motivated by the desire to evade taxes, but rather an active role of the government may enhance it. Its relationship with the development of the financial sector, educational levels, and other cultural factors tend to vary.

Irrespective of the exact nature of self employment, and its sustainability, what is important is, its public policy relevance. Why should self employment be promoted by governments? There are three important arguments as follows:

**2.1.Political Argument:** The rationale for self employment promotion got stronger at the theoretical and strategy level, thanks to the initiative of the ILO(ILO, 1971). Under the, ILOs programme on the Urban Informal Sector, it was argued that, urban unemployment has a significant latent political threat, which need to be addressed and countered through an urban informal sector programme.

**2.2. Seed-bed of Entrepreneurship:** Though self employment may not substantially contribute to income generation and employment opportunities, its role as a seed-bed of entrepreneurship cannot be under estimated. Such a role is conditioned by the extent of political decentralization, and the role played by local governments as promoters of local economic development.

**2.3. Decentralized Manufacturing:** This argument is based on the theory and practice of global value chains. Under such a framework, the importance of

small enterprises depend upon their global positioning. Though the global subcontracting relationships may not be substantially beneficial to the vendor units, it provides a platform of micro entrepreneurship, having its significant visibility (e.g. textile industry of Bangladesh).

### 3.0. The Case for a 'Security Approach'

Vulnerabilities/ problems are often felt in different intensities by the MSMEs, and they seek solutions for the same through different means. One of the most popular means has been to approach government, singly or collectively, through an MSME Membership Organisation(Association). While such problems often get solved fully or partially, such problems recur from time to time. This would require that, beyond piecemeal solutions to problems, there need to be a systemic approach and solutions that are clearly defined and transparent. Today, such problem-solving is confined to the start-up stage of an enterprise, under the rubric" single window system", that is operational in various States in different forms. A 'system approach' demands a holistic understanding of the various dimensions of enterprise security. A solid conceptual framework is a first step in this regard.

Given the public policy relevance, there arises the inevitability of looking at self employment, in terms of what it seeks to achieve, as against its strategic threats.

Box No: 2

### Problems of SMEs: Systemic Corrections are Crucial

Given the public policy relevance, there arises the inevitability of looking at self employment, in terms of what it seeks to achieve, as against its strategic threats. These threats, however, cannot be viewed as individual incidence, but as part of the creation of a system. If so, it is important that, systemic corrections are explored and initiated. Again, such corrections can be made only within the legal and institutional framework that is applicable to any country. Making such framework SME-friendly, is a challenge as well as opportunity.