MSME Vulnerability and 'Enterprise Security' in India: Key Issues to be Debated

ISED Policy Brief

by
ISED Small Enterprise Observatory

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.

Under the India MSME Communication Programme(IMCP), theObservatory, 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.

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January 01, 2019   Director,ISED

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Abstract

The concept of 'enterprise security', initiated by the ISED Small Enterprise Observatory, is a new addition to the semantics of development studies. An important task of this study is to examine the dimensions of 'enterprise security' in the Indian context. What are the salient aspects that explain the problem of security/ insecurity? In order to pin-point these aspects in concrete terms, it is necessary to situate the discussion against the "triple bottom line" principle that guides the global agenda of Sustainable Development today. While a conceptual understanding need to be grounded on some operationally meaningful dimensions, this discussion examines the analytical distinctions, ie., economic, social and environmental dimensions, and the operational criteria of start-up and running and growth stages of an enterprise. It also gives indications on the problem of measurement of the security threat factors. The above discussion, undoubtedly, provides a sound base for deeper empirical analysis on the subject.

Key words: Enterprise security, conceptual understanding, sustainable development, India

1.0. Introduction

In the context of discussing 'enterprise security', it is necessary to have a discussion on the state of vulnerability, to which MSMEs are prone to. 'Vulnerability' is a situation, by which the enterprises face problems relating to: 1) market opportunities; and 2) capabilities. While both in the product and factor markets, they remain vulnerable, such vulnerability can partially be addressed with the help of the necessary and appropriate capabilities. Access to skills, and resources, and institutional capabilities and flexibility can bring in changes that are of a sustainable nature. The purpose of this chapter is to discuss such problems in the context of India's MSMEs today. A vulnerability assessment is the process of defining, identifying, classifying and prioritizing vulnerabilities in the context of the whole life cycle of an enterprise. At various stages, such as infancy, maturity and growth, these problems are present. Unless the exact nature of the problem is identified, it is difficult to arrive at a strategy that is relevant to the context.

2.0. State of MSMEs Today

The problem of 'vulnerability' is both vertical and horizontal in nature. Vertically, depending upon their different stages of growth, MSMEs face problems that demand solution. Horizontally, MSMEs that are involved in various types of production relations, such as sub contracting, self employment, vendor relationships etc, specific vulnerability factors are present. Since, vulnerability is a common thread that cuts across both horizontal and vertical relationships, it is necessary to have a common and too general understanding of the subject. This would be useful both to policy makers and practitioners alike. Such understanding would also be useful for popular understanding of the problem. Let us examine two such indicators as follows:

2.1.   Self employment and its Growth

In any economy, the rate at which new firms are created (alternatively called TEA rate), get manifested in the form of a proportionately high share of self employment, as against wage employment. The state of self employment, in relation to its growth and geographical distribution is a powerful indicator of MSME vulnerability today. In the Indian context, self employment is largely a distress phenomenon. Wage employment is the primary interest of most people. However, the autonomy provided by self employment, is naturally, an attraction as well. The subjective preference ends here. Objectively speaking, the preference, given the objective choice, is again a matter of subjective factors as well. These subjective factors can be, availability of resources for investment, availability of credit, and the basic achievement motivation of the individual.

The growth of self employment is not a too mechanical process. It needs to consider the ground conditions under which the 'achievement motivation' of the entrepreneur sprouts and grows. These ground

Fig: 1. Self employment Ranking of States

conditions, vary from country to country, and region to region within a country. In the Indian context, it is important to understand the State level differences in the tempo of self employment creation. In an attempt to identify the explanatory variables and their strength, the ISED Small Enterprise Observatory initiated a regression exercise.. A discussion on these lines is important, both from the point of view of shaping a policy for self employment promotion, at the national level. The policy maker should be able to closely follow those significant variables and their correlates, for necessary improvements, and corrections, where needed. The results of this exercise give some important insights into the underlying forces of inter -regional variations in self employment.:

The data sets for the above analysis were drawn from the report of the 'Employment and Unemployment Situation in India', brought out by the National Sample Survey Organization in its 68th Round (July 2011-June 2012). Under this Survey, four different estimates of the labour force indicators have been obtained, based on three approaches (i.e., Usual Status, Current Weekly Status and Current Daily status approaches), adopted in the survey for classification of the population by activity status. The Survey covers all the States of the

Indian Union.

The Independent variables used for this analysis are: Self employed in non- agriculture (x1); x2 - Casual labour (Agriculture + Non- Agriculture) (x2); No of MGNREG job cards(x3); General Educational Level (Secondary and above) (x4); No of Female Headed House Holds(x5); Average Area of Land Possessed (Rural House Holds) (x6); Share of Population (65 +) (x7); Rural LFPR (Daily Status) (x8); WPR (Usual Status) (x9); Female WPR (Urban) (x10); Female WPR (Rural) (x11); Female WPR (Graduate) (x12); All WPR (Graduate) (x13); Average wage / Salary(x14); Average Wage / Salary Rural(x15); and Average Wage / Salary Urban(x16).

In the regression model, the dependent variable Y is taken as total self employment(rural). The analysis of the relationship between the key development indicators of each of the States in the Indian Union, is likely to lead to unexpected results. The analysis is done to identify and to understand the strength of the relationship between the variables and their inter dependency. However, some of the key variables selected have shown an insignificant effect in the total dependency, which leads to the necessity to further explore the factors affecting these crucial variables.

The key results are given below:

Table-1: Summary Output

Regression Statistics	
Multiple R	0.94105
R Square	0.88558
Adjusted R Square	0.78388
Standard Error	78.5409
Observations	35

The purpose of this regression analysis is to identify the prime movers of self employment in the Indian economy. The major dependent variables selected were, Urban self employment, Rural non-agricultural self employment and Rural self employment. However, on analysis through step wise regression, it was found that only one variable viz., Rural Self employment, is the most crucial one depending on a large number of