

Towards an 'Enterprise Security' System in India: Case for a National Enterprise Security Act

ISED Policy Briefs

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

In most discussions on MSME development, “problems” are articulated in rather generic terms. Beyond that, from the point of view of development action, a focus on the subsector -specific issues is crucial. In fact, these subsectoral issues vary from region to region. Today, shaping public policy on MSME development in India, though crucial, is becoming increasingly difficult. Therefore, from the angle of a national agenda for MSME development, subsector level understanding of problems need to be focused.

‘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

From the angle of making the concept relevant and useful to the entrepreneur, it is important to examine it at the field level. The question of ‘enterprise security’ need to be understood with the help of an inductive method. Under inductive reasoning, one need to move from specific observations and details relating to the security/ insecurity factors, to some broader generalizations and theories. The discussion in this document is based on solid field evidences on the current state of MSMEs in the country.

This document is the outcome of the co ordinated work of the various Knowledge Centers of the Institute, with the lead role of the ISED Small Enterprise Observatory .While field research in the States of Tamil Nadu and in Kerala form its backbone, of the Report, I wish to thank the Field Teams and our esteemed respondents, without whose co operation, our findings would not have taken shape. The relevant Departments of the Governments of Tamil Nadu and Kerala extended valuable support in the form of access to data sources and by providing rich insights. At the desk, I would like to acknowledge and appreciate the meticulous support of J.M.I. Sait,Phillips Mathew, Jovel Johnson and P. Sreekumar. P.Jagannathan and Vishnu Vardhanan extended excellent support in data processing and analysis. The credit for cover design goes to R.Vishnu, and to Johny Antony for type setting. Last, but not the least, I would like to place on record the technical support of John Antony, Mathew George, Ashique and Arun.

This publication is expected to be useful to various stakeholders that are keen to uphold the role and relevance of small enterprises in the Indian economy. Researchers, policy makers, practitioners, and students belonging to the broad disciplines of Management, Economics, and public policy studies, also may find it useful.

Cochin,
January 01, 2019

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Abstract

India's more recent experience relating to changes in its economy, demands a fresh look at the role of MSMEs. Beyond, the contributions made by various public programmes, there is a need to look at the MSME role in relation to its vast untapped potential. The task and challenge, therefore, is to pinpoint the major 'security' factors, and to understand them in a scientific framework. At the operational level, this highlights the need for an appropriate 'enterprise security framework' and systems that can help policy making, and of formulation of strategies.

Key words: MSME, enterprise security framework, India, National enterprise Security Act

1.0. Introduction

The discussion in the previous chapters have focused on the various aspects of enterprise development at the conceptual level. However, at the operational level, there is need for evolving a national enterprise security system. The purpose of this chapter is an exploration on these lines.

2.0. Conceptual Base

In the real world, though entrepreneurship offers a multiplier of incomes and other opportunities, the motive force often varies. In the existing literature, entrepreneurship takes two forms: 1) 'necessity entrepreneurship'; and 2) 'opportunity entrepreneurship'. Necessity entrepreneurship need not often unleash the favourable conditions, as a growth contributor, but often serves a social purpose. In a backward society, characterised by massive unemployment, such social purpose is, by no means, less important. What is needed is to create the conditions for entrepreneurship to sprout and mature in a sustainable manner, is a conducive environment, ensured by public policy. It is in this context that an exploration on the concept of 'enterprise security' become relevant. The popular perception on entrepreneurship, in any society, is one of "an activity of the chosen few". The chosen few, in turn, have to give out a message to the whole community, that entrepreneurship be the beacon of 'sustainable development'. It should not give negative signals. Positive signals will emerge only from their objective experience. This is the context in which 'local economic development' emerges as a dominant development paradigm.

3.0. Global Models of Employment

The global experience of entrepreneurship development demonstrate different types of models of enterprise creation and entrepreneurship development. The success or failure of these models depend, to a large extent, on the policy process. The report of the Kenya Mission (1971) by the ILO has described in detail, the political ideology behind promotion of the so-called 'urban informal sector'. This model caught up in 1970s and 80s, leading to different variants of 'informal sector' development programmes in many countries, including India. In India, the self employment programmes have undergone changes over time, based on the dominant political perceptions and agenda of the times. Starting from 'rural industrialization' in the 1950s and 60s, and subsequently, programmes for the educated unemployed youth in 1970s and 80s, India now has massive livelihood programmes managed under the type of social organization called 'Self Help Groups'. With the growth of the 'new economy', venture financing and high-technology start-up programmes also have become fashionable, though such initiatives are relatively small.

The real-world experience, as outlined above, necessitates a definition of the concept of 'enterprise security' as a starting point for further discussions. The term 'enterprise security', by negation, is the absence of 'enterprise insecurity'. What is this 'insecurity' all about?

Entrepreneurship is the catch-word of the times; but with all the public policy support and initiatives, the rate of the start ups in India is significantly coming down. Similarly, existing units do not get the 'real services' and support needed for their sustenance and growth. In short, enterprises in India are prone to several vulnerabilities today. They can be broadly categorised under the following domains: 1) project identification; 2) real services; 3) finance; 4) growth; and 5) value chain.

There are specific actors and institutional structures that are expected to address these problems, which public policy is expected to oversee and coordinate. Today, there are some major problems relating to public policy which, if corrected properly on the basis of clear criteria (and not through ad hoc-ism), can lead to a secure environment in which enterprises can sprout and grow. It is necessary to analyze these problems in-depth, in order to arrive at meaningful development policies and strategies.

3.1. Best Practices and Lessons

The move towards a National Enterprise security system need to have at its forefronts, specific of the components of such a security system. There are two major components that define and direct enterprise security and that of an ecosystem congenial for the growth of SMEs. First, there need to be an appropriate regulatory framework. Such a regulatory framework, beyond, the kind of Government in power, defines how the entrepreneurs can trust the system. Secondly, following from the above regulatory framework, there need to be an appropriate institutional and operational framework.

The International Labour Organisation (2016), based on a detailed study of country experiences in six countries, came out with some findings, good practices and learning's as follows:

- The setup of an SME promotion agency, through which all government support to the sector is channelled, proves more efficient than spreading resources over various support organizations.
- Some agencies use an indirect approach to administer programs: they implement programs whilst contracting third parties to provide the services.
- The inclusion of stakeholders and other public- and private sector parties has improved legitimacy and relevance of the agency.
- A stable funding mechanism is key to ensuring the long-term effectiveness of the agency.
- It is important to become a learning institution and adapt interventions to new needs.
- High-level professionals with long-term experience improve the quality of products and services provided.
- The existence of a large variety of support programs has translated in an inefficient and ineffective use of available resources.
- The law may pose an impediment to charge a fee

to SMEs for business consulting services. Based on the above best practices and learning's, the recommendations of the ILO, relating to a suitable regulatory framework are as follows :

- An SME promotion agency should be embedded in a law or presidential decree.
- If the organization is autonomous, the relation with the government policy on the SME sector should be defined in the law or decree.
- The objectives should be in line with the long-term national economic policy, based on a needs analysis, and be part of the relevant law or decree.
- If there are other support organizations in the country, the objectives should be well aligned.

It is important to note that, unless the regulatory framework is spelled out in clear terms, with respect to relevant institutional and operational framework, regulation by itself, will not fruitfully serve the interest of SMEs. The ILO recommendations in this regard are as follows:

- The agency should be embedded in the national enterprise promotion system.
- The president of the board should be appointed by the highest level in the government.
- It is important that the different stakeholders from the public and private sector are represented in the governing council or board overseeing the agency.
- SME promotion agencies should target all SMEs, even though each program may focus on a specific group, sector or size class.
- It is recommended to move away from relatively standardized tools and interventions to more complex ones focusing on a specific group of SMEs once the agency has set its role in the support system.
- A long-term financial planning should be developed and approved to ensure that the agency is not at risk due to a change of government.
- A sound and holistic monitoring and evaluation system should be in place and embedded in the law or decree.

While in much of the recent international literature there has been detailed discussions on the institutional and operational framework, and much less on the regulatory