CHAPTER 3
RATIONALE FOR THE RESEARCH ON MSME

This section discusses and develops the rationale for the current research. The lead for this discussion is drawn from detailed literature review done in the previous chapter. An attempt is made to discuss the three primary factors that can influence MSME performance and how one narrows down on entrepreneurial aspects of performance which are seen to be majorly influenced by a region’s culture. The chapter will conclude with the development of the research questions and the related hypotheses.

3.1 Important factors that possibly moderate MSMEs performance in India

Hofstede’s theory of cultural dimensions originated from his historic analysis of country-cultures. But can this framework be used for sub regions or states? In fact, Hofstede along with his co-authors (Hofstede et al, 2010a) has used the framework to analyse the regional cultures of Brazil. During a personal interaction he suggested and recommended necessary changes to his original framework based on an emic review of the cultural dimensions applicable for India. However, one needs to be careful and aware of various important dimensions that may influence the performance of MSMEs especially in the Indian context.

The review of the statistics from the fourth census showed how the MSMEs across major states of India perform differently. This has to be seen in the context of the enormous diversities provided by the various regions of the country and cultural attributes being one of the major influences on this. It is also seen as to how the environmental and contextual diversities get further moderated or influenced by certain aspects like the region/province or state, location of the enterprise within the region/province/state, the size of its operations, namely, micro, small or medium (as per Government of India classification) and whether they provide products or services output. Here some of these aspects are discussed in detail in the Indian context.
3.1.1 States

India’s diversities, cultural pluralism and the differing social and cultural orientations across different regions of the country are well known (Anderson, 2012; Deshpande & Sharma, 2013). India is a federal union of states comprising twenty-nine states and seven union territories. The Constitution of India (1949) distributes the sovereign powers exercisable with respect to the territory of any State between the Union and that State. The states and union territories are further subdivided into districts and further into smaller administrative divisions. The Ministry of MSMEs, Government of India, designs, facilitates, monitors and follows up policies and programmes of the country’s MSMEs and also supplements the efforts of the various State Governments who have the primary responsibility to promote and develop the MSMEs (Ministry of MSME, Annual Report, 2011-12).

Table 3.1.1: GVA of Registered & Unregistered MSMEs (State-wise) as a percent of GSDP

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>States</th>
<th>Registered Units</th>
<th>Unregistered Units</th>
<th>Total GVA</th>
<th>GSDP (2006-07)</th>
<th>Total GVA as percent of GSDP</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>No. of Units</td>
<td>GVA ₹ '000s Million</td>
<td>No. of Units</td>
<td>GVA ₹ '000s Millions</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Kerala</td>
<td>150</td>
<td>99,588</td>
<td>1,294</td>
<td>1,65,584</td>
<td>2,65,172</td>
</tr>
<tr>
<td>21</td>
<td>Maharashtra</td>
<td>87</td>
<td>3,99,393</td>
<td>1,445</td>
<td>1,04,636</td>
<td>5,04,029</td>
</tr>
</tbody>
</table>

The administrative, social, political and cultural environments of each of the states of the country, therefore, moderate the working of MSMEs in the Indian context. 28 states were considered for this study. The state of Telangana was carved out of Andhra some time ago and has not been separately considered for this study due to the non-availability of data. Tables 2.4.1 and 2.4.2 give the state-wise details of the Gross Value Added (GVA), Gross State Domestic Product (GSDP). Table 3.1.1 has been carved out of these two tables to highlight the MSME output characteristics of the two sample states, namely, Kerala and Maharashtra. Kerala is ranked 6th (out of 28) and Maharashtra 21st based on the respective state’s contribution to the corresponding GSDP. The profiles of these two states are distinctly different and represent the larger spectrum of the country in terms of diversity. While Kerala is
characterized by relatively larger number of micro enterprises, Maharashtra has a larger number of small and medium enterprises. The range of business handled by Kerala is much less than that of Maharashtra especially in the manufacturing sector. The manufacturing sector in Kerala handles businesses mostly related to rubber, fisheries, packed food items and construction material, metal fabrications, wooden furniture, pottery and handicrafts. Maharashtra on the other handles much richer variety of manufacturing enterprises ranging from chemical, plastics, rubber, glass, electrical and electronic components, automobile, tractors, trucks, readymade dress etc. The service industries in these two states are also different in nature. Software services, Repair and Maintenance services, Real Estate business, Business Consultancy are all characteristics of Maharashtra. The range of service business observed in Kerala is relatively less and confined to construction business, software services and some amount of repairs and maintenance services.

3.1.2 Location type (rural vs. urban)

The Indian rural scenario provides a typical example of the subsistence economy with its innate socio cultural framework (Polanyi, 1957; Rosser & Rosser, 2005). Urban India, on the contrary, provides a transition into the increasingly modernized and is integrated with the national and global market economy. Even with the influence of modernization the Indian urban scenario has a complex mix of tradition with modernity. It has the new traditional economy in place (Rosser & Rosser, 2005). India being such a large country, each region has the regional flavours of the socio cultural framework.

In the Indian rural context villages are considered as units around which there are structures consisting of the family, caste/religion, social or village organizations as well as the economic environment specific to the village. In most of the Indian villages there are social groups which are in charge of certain services and the other villagers are dependent on them for fulfilment of these services that work on the line of reciprocity apart from formal exchange processes. Generally the interdependence of various groups is high. The micro and small business enterprises in villages mostly produce for the local economy. Informal norms and customs dominate over formal law in the case of social control, dispute settlement as well as trade.
The urban society is heterogeneous, diverse and complex. It has more formal means of social control besides informal methods of behaviour control. There is high level of division of labour. Urban societies could be multilingual and ethnic groups. On the one hand they are class conscious and on the other they are flexible and progressive and welcome changes. Contrary to the scenario in villages education is more widespread in urban areas and urban population is more adaptive to technology changes and innovations. This could be a possible reason for the relatively larger presence of small and medium enterprises in urban locations than in rural locations. The higher end small business enterprises and medium enterprises require larger use of technology and innovations to survive in the global market economy and the Indian urban population with their positive and adaptive approach to technology induction and innovations naturally encourage these higher end MSMEs in the urban locations.

3.1.3 Size of business – micro, small and medium

The size of the business operations moderates performance. The micro organizations with their small investment, reach and limited capabilities to produce and market form one end of the spectrum while medium sized enterprises with high investment form the other end of the spectrum. The small enterprises form the middle part of the spectrum. The three classifications based on size of operation give rise to three major groups of enterprises with widely varying nature of operations. The characteristics of a micro business enterprise and those of a medium unit are therefore not always comparable. As per the last census of MSMEs, the percentage of micro enterprises (both registered and unregistered MSMEs put together) with respect of the whole country is 99.47 per cent, that of small enterprises is 0.52 per cent and medium industries is 0.01 per cent. In terms of magnitude and the nature of business organization, there seems to be a huge divide among micro, small and medium size enterprises.

3.1.4 Nature of business operations: manufacturing vs. services

Another type of organizational divide occurs as a result of the type of operations of the business enterprises. The nature of the business operations of MSMEs can be mainly divided into two based on the nature their output/delivery: it can be either manufacturing or services. Manufacturing enterprises manufacture and deliver
products whereas services oriented enterprises deliver services including repairs and maintenance services. The Fourth Census of MSMEs finalized in April 2011 (base year 2006-07) has come forth with key performance parameters for manufacturing and services MSMEs. Both vary significantly from state to state depending on various state or region specific factors.

3.1.5 Culture, entrepreneur and enterprise performance

The review of literature narrated in the second chapter points to the fact that culture influences the entrepreneurs’ capability to manage their business, especially in managing their workforce and output processes. It is also found that Hofstede’s framework could be considered as the baseline for one’s understanding of Indian culture subject to a validation process.

An “entrepreneur’s behaviour generally encompasses a narrow wedge of opportunity used to combine resources, innovations and/or technology for value adding activity in a manner different from what existed previously” and the process of combinations originating from culture (Gupta, 1994, p. 3). Culture is a “socially transmitted heritage” (Gupta, 1994, p.2) and it value adds behaviours. So an entrepreneur’s relationship is always anointed by her/his cultural make up. It becomes necessary to look at the cultural dimensions of an entrepreneur to realize how good she/he could be in managing her/his human resources. The success of an enterprise thus can be attributed to an entrepreneur’s capability to manage his workforce and other resources plus his capability to “reform or revolutionize the pattern of production by exploiting an invention or, more generally, an untried technological possibility for producing a new commodity or producing an old one in a new way, by opening up a new source of supply of materials or a new outlet for products, by reorganizing an industry and so on” (Schumpeter, 1942, p. 132).

One also needs to look at the various moderation factors like region (State), nature of location (rural or urban), type of enterprise (micro, small or medium) and nature of business (manufacturing or service).

The discussion in this section of this chapter leads to certain questions. What is the extent or spread of the cultural dimensions across the various regions of the country?
Can there be variations in the performance across states, location types, enterprise types, and business types?

Another aspect of the study is the behaviour of entrepreneurial performance across states, and across the various segments that can possibly moderate the performance. That means, one needs to find out whether there are any variations in the extent of the various cultural dimensions that are practiced by the micro, small and medium entrepreneurs of this country; most importantly whether entrepreneurial culture determines performance. These are some of the questions are intended to be addressed in this thesis.

3.2 Formulating the Research Questions and Hypotheses

The main fuel for MSME performance is the entrepreneurial creativity in managing the respective enterprises and how efficiently an entrepreneur deploys and manages her/his enterprise’s labour force (Mallett & Wapshott, 2013). The strengths of these enterprises are their cohesiveness, efficiency of operations and the motivation of the entrepreneurs who often contribute the most important skill sets for these enterprises.

Two important factors namely culture and performance of micro, small and medium entrepreneurs were identified based on which it was hypothesized that culture and performance would vary across a few categories, namely, across:

1. States
2. Enterprise types, namely, Micro, Small and Medium
3. Business types, namely, Manufacturing and Services
4. Location types, namely, rural and urban

From the discussions in the previous chapters and sections the research questions can then be refined and put in the following way:

1) Are there any variations in the performance of MSME entrepreneurs across the states, location types, enterprise types, business types and across the various hierarchical interactions of state, location, enterprise, and business types?
2) Are there any variations in the influence of ‘cultural dimensions’ of MSME entrepreneurs across states, location types, enterprise types, business types and across the various hierarchical interactions of state, location, enterprise, and business types?

3) Do the ‘cultural dimensions’ of entrepreneurs influence performance of MSMEs across the above identified classifications of MSME segments?

The Operationalization of the various research variables are detailed in Table 3.2.1.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Definition</th>
<th>Measure</th>
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<tbody>
<tr>
<td>Performance</td>
<td>Micro, small and medium entrepreneurs’ capability to perform, that is, manage an enterprise’s labour resources</td>
<td>Growth in revenue per person per annum</td>
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</table>

The following cultural dimensions of micro, small and medium entrepreneurs:

- **Power Distance**
  - Tend to abide by formal codes of conduct, accept hierarchical order and are reluctant to disagree with superiors

- **Risk-taking propensity**
  - Comfortable with uncertainties and risks and do not mind taking risks to reach business goals

- **Collectivism**
  - Give importance to group welfare, group loyalty and group goals in comparison with personal needs or goals

- **Masculinity**
  - Perceived male values like success, money, position, personal gains are given greater emphasis as compared to modesty, humility, affection and consideration for others (feminine values)

- **Pragmatic Orientation**
  - Persistence or perseverance, ordering relationships by status, being pragmatic and thrifty

- **Indulgence**
  - Perception of life control and importance of leisure in respondent’s life

Entrepreneurial performance is defined by the enterprise performance as reflected by the growth in revenue per person per annum. Performance of an enterprise can be measured by various key performance indicators (KPI). Usual KPIs are net profits,
return on investment (ROI), revenue-per-employee, market share percentage and also ratio of gross profits to gross sales. Workers are the key assets of micro, small and medium enterprises and one of the key indicators of small business management is how efficiently the entrepreneur relates with, deals with and manages the labour resources (Mallett & Wapshott, 2013). In other words, the key aspect of entrepreneurial performance in managing small business is how efficiently he deploys and manages the MSME’s labour force. Revenue per employee is often considered one of the best measures of small business performance (Hupalo, 2004; Neville et al, 2012; Periu, 2015). The ‘performance’ from this perspective can be defined as the Annual Growth (per cent) of ‘revenue per employee’.

The cultural dimension scores are measured by the entrepreneurs’ cultural orientations based on the questionnaire on a Likert scale from 1 to 5 with 1 being strongly disagree to 5 being strongly agree.

The survey of literature related to entrepreneurship, cross country cultures and relationship between culture, human behaviour and entrepreneurship has led to the following research hypotheses based on the three research questions.

Table 3.2.2: Hypotheses set-01

<table>
<thead>
<tr>
<th>Research Question-01:</th>
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<tbody>
<tr>
<td>Are there any variations in the performance of MSME entrepreneurs across the states, location types, enterprise types, business types and across the various hierarchical interactions of state, location, enterprise, and business types?</td>
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</tbody>
</table>

| H0.1 | There is zero variance in the performance of MSME entrepreneurs across the states, location types, enterprise types, business types and across the various hierarchical interactions between state, location, enterprise, and business types |  |
Table 3.2.3: Hypotheses set-02

Research Question:-02:
Are there any variations in the influence of ‘cultural dimensions’ of MSME entrepreneurs across states, location types, enterprise types, business types and across the various hierarchical interactions of state, location type, enterprise type, and business types?

H0.2.1 There is zero variance in Power Distance of MSME entrepreneurs across states, location types, enterprise types, business types and across the various hierarchical interactions between state, location types, enterprise types, and business types.

H0.2.2 There is zero variance in Uncertainty Avoidance of MSME entrepreneurs across states, location types, enterprise types, business types and across the various hierarchical interactions between state, location types, enterprise types, and business types.

H0.2.3 There is zero variance in Collectivism of MSME entrepreneurs across states, location types, enterprise types, business types and across the various hierarchical interactions between state, location types, enterprise types, and business types.

H0.2.4 There is zero variance in Masculinity of MSME entrepreneurs across states, location types, enterprise types, business types and across the various hierarchical interactions between state, location types, enterprise types, and business types.

H0.2.5 There is zero variance in Pragmatic Orientation of MSME entrepreneurs across states, location types, enterprise types, business types and across the various hierarchical interactions between state, location types, enterprise types, and business types.

H0.2.6 There is zero variance in Indulgence of MSME entrepreneurs across states, location types, enterprise types, business types and across the various hierarchical interactions between state, location types, enterprise types, and business types.

Table 3.2.4: Hypotheses set-03

Research Question:-03:
Do the ‘cultural dimensions’ of entrepreneurs influence performance of MSMEs across the various combinations of state, location type, enterprise type, and business type?

H0.3.1 Power Distance does not influence MSME entrepreneurs across the various hierarchical combinations of location, enterprise, and business types in Kerala.

H0.3.2 Uncertainty Avoidance does not influence MSME entrepreneurs across the various hierarchical combinations of location, enterprise, and business types in Maharashtra.

H0.3.3 Collectivism does not influence MSME entrepreneurs across the various hierarchical combinations of location, enterprise, and business types in Maharashtra.

H0.3.4 Masculinity does not influence MSME entrepreneurs across the various hierarchical combinations of location, enterprise, and business types in Maharashtra.

H0.3.5 Pragmatic Orientation does not influence MSME entrepreneurs across the various hierarchical combinations of location, enterprise, and business types in Maharashtra.

H0.3.6 Indulgence does not influence MSME entrepreneurs across the various hierarchical combinations of location, enterprise, and business types in Maharashtra.

3.3 Summary

The review of the evolution and performance of MSMEs across India and a few of the select countries and regions of the world led to the three research questions and the related hypotheses. Subject to validation (as taken up in the next chapter), six cultural dimensions as prescribed by Hofstede are considered. Since Hofstede had taken a
global or etic view, one has to further get an insider view of what all could be relevant for India. This calls for an appropriate method of validation through an exploratory phase as described in Chapter 4. This phase attempts to identify and understand the cultural dimensions that could possibly influence entrepreneurial performance in the case of Indian MSMEs. Hofstede’s cultural dimensional framework is taken as the baseline and an attempt is then made to understand its relevance in the Indian regional context. Hofstede had used an “Etic” (global and scientific) approach to arrive at his cultural dimensions. Since these dimensions are used in the Indian regional context, an insider view or an “Emic” (insider or bottom up) approach is necessary to assess whether these factors are sufficient to define the various cultural dimensions influencing MSMEs. In the insider or emic approach to this study, a qualitative approach is being used for interacting with experts using a semi-structured questionnaire to understand the fitment of Hofstede’s cultural dimensions in the Indian regional context. The outcomes of this study can help in refining the cultural dimensions and hence the refinement of a few of the hypotheses.