Chapter – I

Introduction
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INTRODUCTION

This chapter presents the background of the study for institutional networking and the development of MSMEs focusing on problem statement, conceptual understanding, structure of institutional network, identification of objectives and hypotheses and research questions based on research gap, methodology, data analysis, scope and importance of the study are also expressed followed by limitations and the thesis design. In brief, this introductory chapter provides the foundation and framework on the focused theme of the thesis.

1.0 Background

Micro, Small and Medium Enterprises (MSMEs) are driving force in the socio-economic development of a country. This is reflected in the empirical evidence of countries both Developing and Developed across the world. They comprise, more than 90 percent of all the enterprises in the world and are on an average responsible for 60 to 80 percent of total employment, thus help to contribute to sustainable poverty reduction. The new challenge in many developing countries including India is to combine employment potential of MSMEs with their productivity. This requires shifting their productive base from low value, price – determined modes of operation to higher value, knowledge based pattern of production. This demands an enabling environment that facilitates the growth of MSMEs, including institutions and their networking for information sharing under globalization. However, there are gaps in providing business information (Zhao 1999, Ducombe & Heeks 1999: Moyi 2003) (Chiware, 2008) besides the capacity building of institutions supporting MSMEs as well as MSMEs and it is very much essential for the survival of MSMEs in the competitive world

MSMEs need to be competitive for sustainability. Sustainable development of MSMEs depends on constant improvement and innovation in the enterprise. There are many institutions working for the development of MSMEs, it is important to
understand that how institutional support is being provided. MSMEs are weak in accessing the information from the institutions or they do not know to obtain efficiently (Mutula 2005). There is need for developing strategy for dissemination of knowledge, technology transfer, innovation, value addition, productivity, and sustainability of MSMEs and first generation entrepreneurs. Although promoting national and regional level institutes in various sectors are necessary, but it may not give expected results if they are not accessed by the MSMEs. This gap of providing services can be addressed through networking of institutions.

MSMEs registered a growth rate of 13 percent during last four years of eleventh plan period on an all India basis (GOI, 2012). Similarly, Karnataka as well as Mysore district registered positive growth trend during this period (GOK, 2012). To achieve the proposed growth, structural reforms of the institutions are required to be implemented. Governments in the quest of improving living standards of the people are working towards improving economic conditions. To achieve this, there is need for development of MSMEs. The success of MSMEs depends on the client driven marketable products or innovative products. Though an individual firm can participate in global market, without the support of institutions it is very difficult (Opara ocha, 2011). Entrepreneurship depends on the institutional environment for fostering the growth of MSMEs. This environment is the source of legitimization, rewards or incentives and constraints in the activities of MSMEs (Clinger Mayer & Fei ock, 2001) (Hernan Roxas, 2008). Making MSMEs effectively use the services of institutions is an important issue and linking MSMEs and MSME institutions is very much essential which can be achieved by networking the institutions.

Networks are considered important determinants of the success of MSMEs, as they improve access to new markets and business opportunities, which help in benefiting the small business with higher profitability (Street & Cameron, 2007, p. 239 – 240). The networks are categorized as are horizontal, vertical and cluster networks providing better access to services. Being part of network, individual enterprise or group of enterprises can draw advantages from the network in the form of economies of scale, technology transfers, innovations, markets, knowledge sharing, infrastructure facilities, resources utilization, employment creation and paving the way for improvement in this sector. Institutional networks takes into account the mixture of Government support programs & policies, international development
agencies, innovation centers, research institutions and professional support institutions which provide support services which may enhance firm’s knowledge transfer and internationalization propensity (Séror, 1998, p. 39 & 40).

1.1 Motivation for the Study

The potential role of MSMEs decentralized, inclusive, stable and sustainable development of a country- developed as well as developing- is very well established in the empirical studies pertaining to various countries of the world. India is no exception to this. However, the vulnerability of this sector has also been documented in several research studies and reports both by individuals and institutions. Some of the important studies have been discussed in the literature review.

The developmental and promotional policies of the Government of India have led to emergence of the plethora of institutions for facilitating the development of MSMEs. As a result of these policy interventions, combined with inherent strength of MSMEs have made this sector significant in terms of its contribution both in terms of employment generation and export earnings. But given the number of institutions meant for providing a variety of services, the expressions of MSME entrepreneurs reveal that there is poor coordination and networking between institutions on the one hand and between entrepreneurs and institutions on the other.

Networking in this context is very comprehensive on account of various types of institutions, at various levels, of various organizational types, including international institutions. However, ICT revolution has facilitated this networking. Even with this, it is a web of complexities. Therefore, for the purpose of objectivity, and clarity, the study is focused on institutions at the state level of Karnataka particularly the study area i.e. Mysore taluk. Further, most of the Government institutions are considered apart from few private institutions to understand how networking enables several benefits to the MSME entrepreneurs. The theme highlights the case of institutional economics.

A good number of studies have focused on multidimensional issues in the context of the development of MSMEs, but hardly a few have attempted to approach the issue from institutional network angle. Hence, this research gap brings out strong case for scope and importance of the study. This in fact, has motivated selection of
this mainstream research issue for an empirical study. The MSME act 2006 has further strengthened the motivation by clearly highlighting the dynamics of the sector in the growth perspective of the country.

1.2 Need for Networking of MSME Institutions

The rapid advances in information and communication technologies (ICTs) have far-reaching effects on both Government and business operations. Small and Medium Enterprises (SMEs) need to have access to adequate information to enhance productivity and facilitate market access. However, in most developing countries, the SME sector is suffering from inadequacies in the provision of business information, which is only available from stand-alone institutions, often slow and cumbersome to access, limited in scope and not provided in an integrated manner. Moreover, access to information is insufficient; SMEs need tailor-made information solutions, i.e. business information services that assess, verify and apply information to a specific business problem. Since globalization, MSMEs have undergone a significant change in the background of emerging issues and challenges. The new environment demands a coordinated and consortium approach in which case there is a strong need for networking of institutions as well as networking of enterprises with institutions meant for promoting MSMEs.

In the present study, the scope is narrowed down to the institutions which are oriented and targeted towards assisting development of MSMEs. Impediments of startups or expansion of MSMEs are documented by different researchers and Government supported study groups. Earlier committees did recommend for a number of policies and programmes, and one of the issues is, providing integrated or Single Window or One-stop-Shop facilities to MSMEs. The findings and recommendations of these works imply that entrepreneurs are at disadvantage when they are using their own resources but approach different institutions for development of MSMEs. Each institute plays a significant role and contributes new ideas and solutions, Hence institutions are very important for the development of MSMEs based on the arguments of these studies, governments are coming out with new policy measures, schemes and new institutions. However, it is observed that, they are working for the development of MSMEs independently and in isolation. To achieve the expected results, co-ordinated works of the institutions are an essential part of the development
process. The first step in networking of institutions is information flow to the entrepreneurs to convert their entrepreneurial ideas into technically feasible and financially viable proposals.

In order to respond to the specific needs of MSMEs, the Business Information Services programme of UNIDO has created value added services by bringing together information from different sources and transforming that information into solutions, including ICT and e-business support, in order to enable the integration of MSMEs in national and global value chains. There is a large potential to synergize with other national and international information networking initiatives, which should be pursued in the context of knowledge management and information sharing. This support service can be the best practice example for networking.

The Abid Hussain Committee, Third census report of Government of Karnataka 2000-01, Task force on Transaction cost in exports, reports of Government of India, UNIDO support programme report (2003), UNIDO working paper on SME clusters and Network development, Chiware (2008) and Oparaocha et.al (2011), cite the networking and information flow as one of the critical needs that has to be addressed for development of MSMEs.

Report on Evaluation of the Ongoing Scheme of Ministry of MSME “Assistance to Training Institutions” (June 2012) submitted to Ministry of Micro, Small and Medium recommended for modification in schemes and coordinated effort for better conversion of trained candidates or entrepreneurs to self employment and wage employment involving other stakeholders.

1.3 Conceptual Understanding

MSMEs

After independence, India felt the need for the industrialisation and specially for employment generation in rural areas. Development of SSI (now referred as MSMEs) sectors was the most important means to achieve the objective. Ford Foundation provided the direction to start understanding systematic approach to the problem of SSI development.
Definition of small industry has undergone a significant evolution and change as time advanced. It is observed that except the 1955 all the other definitions given during 1960, 1966, 1974, 1980, and 1985 till 2006, were based on investment in plant and machines in industrial unit. However, the legal framework was given and SSI was redefined as Micro, Small and Medium Enterprises according to the MSMEs Act 2006. The definition covered manufacturing sector and service sector. In this study the Small Scale industries (SSI), Small and Medium Enterprises (SMEs) are considered same as Micro, Small and Medium Enterprises (MSMEs).

(a) **Manufacturing Enterprises**- The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule of the Industries (Development and regulation) Act, 1951. The Manufacturing Enterprise is defined in terms of investment in Plant & Machinery.

(b) **Service Enterprises**: The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

The limit for investment in plant and machinery / equipment for manufacturing / service enterprises, as notified, vide S.O. 1642(E) dtd.29-09-2006 are as under:

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<th></th>
<th>Manufacturing Sector</th>
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<tbody>
<tr>
<td><strong>Enterprises</strong></td>
<td><strong>Investment in plant &amp; machinery</strong></td>
</tr>
<tr>
<td>Micro Enterprises</td>
<td>Does not exceed twenty five lakh rupees</td>
</tr>
<tr>
<td>Small Enterprises</td>
<td>More than twenty five lakh rupees but does not exceed five crore rupees</td>
</tr>
<tr>
<td>Medium Enterprises</td>
<td>More than five crore rupees but does not exceed ten crore rupees</td>
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**Service Sector**

<table>
<thead>
<tr>
<th><strong>Enterprises</strong></th>
<th><strong>Investment in equipments</strong></th>
</tr>
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<tbody>
<tr>
<td>Micro Enterprises</td>
<td>Does not exceed ten lakh rupees:</td>
</tr>
<tr>
<td>Small Enterprises</td>
<td>More than ten lakh rupees but does not exceed two crore rupees</td>
</tr>
<tr>
<td>Medium Enterprises</td>
<td>More than two crore rupees but does not exceed five core rupees</td>
</tr>
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Source: MSME Act 2006 Government of India
Institutions

Institutional economists believe that institutional factors strongly determine the growth of economic activities. Institutions are created by man to mould and shape development in a definite and desirable direction. They are the agents of change and hence dynamic in nature and functioning. Institutions are defined as “social and economic rules, conventions and other elements of the structural frame work of social interaction”. According to Nobel laureate Douglass c North (1990 P3) “The institutional environment is hormonally devised constraint that structures the political, economic and social interactions”. Hence broadly speaking, institutional factors pertain to the organisation of development process, also the fostering of growth related attitudes and motives. Unlike other factor inputs, institutions cannot be substituted. Throughout the development history of MSMEs, the institutional frame work, at various levels have played a prominent role in promoting them.

Theory of Institutional Economics has been dealt with by many scholars which can be classified as Old and New institutional theories. Old theory proposed by Rutherford, (2001) Hodgson, (1998); Parto, (2005); Vatn, (2005) and the works of Commons, Veblen, Mitchel and Ayres, amongst others heavily influenced this early phase of institutional theory. The economic activities are the outcome social environment and social setting. The institutions are the support system in society consisting of political, law, and informal institutions which is complex social system Peters, (1999). Selznick theory in Scott (2001) (Coase, 1960) The New institutional theory developed by the Coase (1960), Williamson (1979, 1981), Rao, 2003; Williamson 1979) and more recently, by North, dwells on the role of institutions in reducing the transaction cost or those costs associated to initiate, manage, and complete various types of economic exchanges (Rao, 2003).

The present work examines both the role of institutions in promoting MSMEs(old institutional approach) and also how the networking of those institutions among themselves and with entrepreneurs reduce the transaction cost in the process of promoting the growth of efficient firms in a competitive environment, characterized by cost and quality (new institutional approach)
Institutional Economics

Institutions support the growth of economic activities in the society and MSMEs also dependent on institutions for their development. Therefore, it is important to understand institutional economics which contributes to a better understanding of the growth process. While building social and commercial relationship, institutions reduce the transaction cost, the information cost, allow the capital formation and capital mobility, share the risk and facilitate cooperation. Industrialization requires institutions to mitigate the cost of transactions. Political, legal, bureaucratic, courts and other parts of the society play key role in institutional economics (Klein, 1999).

Entrepreneurship depends on the institutional environment for fostering the development of MSMEs. This environment is the source of legitimization, rewards or incentives and constraints in the activities of MSMEs (Clingermayer & Feiock, 2001). Institutions are formed to reduce this uncertainty by setting the rules of the game in the form of formal rules, informal norms, and their enforcement characteristics (North, 1992; North, 2005). Likewise, the same rules of the game provide the constraints and incentives that encourage entrepreneurs to switch from unproductive to productive activity and ultimately improve the general economic well-being of a society (North, 1990). MSME as an organization acts as a subsystem of a wider social system, which is a source of meaning, legitimation, or higher level support. In short, success of an organization depends on whether it has the necessary support from the wider system. (Hernan Roxas. et.al.). Formal and informal institutions play significant role in development of MSMEs. Formal institutions consist of written policies, laws, and regulations. They also include political rules, economic rules and contracts on the other hand, informal institutions are defined by North as codes of conduct, norms of behaviour, conventions and all these generally emanate from a society’s culture (North, 2005) (Hernan Roxas, 2008). Institutions can be formal and informal, work across boundaries of social sciences, provide structure to socio-economic systems, provide constant incentives to economic activities, sustain by shared conceptions, expectation and they could be tangible or intangible.
1.4 Networking and Network in Economic Perspective

Networks: defined “as the relationship between a firm’s management team and employees with customers, suppliers, competitors, Government agencies, distributors, bankers, families, friends, or any other party that enables it to internationalize its business activities” (Zain & Ng, 2006, p. 184).

Networks are relationships between entities that collaborate among themselves for strategic purposes (Möller & Halinen, 1999; O'Donnell et al., 2001; Nerys & Esyllt, 2004). Iacobucci & Zerillo (1996) explain that the network research focus on understanding the different interconnections that exist between units. Networks constitute a central medium through which small businesses satisfy their resource incapacity (Iacobucci & Zerillo, 1996, p. 389). Networks are considered an important provider for SMEs success, as they improve access to new markets and business opportunities, which help benefit the small business with higher profitability (Street & Cameron, 2007, p. 239 - 240). For these reasons it is important to understand the outcomes of having external relationships and how they influence firm performance, to suggest this is the primary motivation of the SMEs to participate in a network (Street & Cameron, 2007, p. 252) (Oparaocha, 2011) Companies develop different types of relationships with suppliers, costumers, competitors, others businesses in the same industry, government, family, friends and employees (Nerys & Esyllt, 2004; Zain & Ng, 2006). Institutional networks takes into account the mixture of Government support programs & policies, international development agencies, innovation centers, research institutions and professional support institutions which provide support services which may enhance firm’s knowledge transfer and internationalization propensity (Séror, 1998, p. 39 & 40).

With the theoretical background of Institutional Networks, for the purpose of present thesis, connecting the institutions is networking of institutions for the development of MSMEs. To bring further understanding and applicability to local conditions, networking of institutions can be: Co-Ordination, Co-Operation and liaison between Entrepreuneurs, MSMEs, Government Departments, Research Institutes, Community Organizations, NGOs, Academic Institutions, Financial Institutions, and Media. Awareness about the institutional services by MSMEs leads to accessing the services and networking of institutions save transactional costs.
MSMEs can access the knowledge from Institutions, like planning and resource mapping, Development of B2B, market intelligence, new technologies, access to finance, cost effective information and facilitation, creating policy awareness, user friendly information, and communication technologies, labour and skill development, infrastructure support, taxation.

Networks have been used by the society partners to explore the possibility of economic growth. Networks of Markets, labors, scientific co operations, industries provide information and economic advantages through informal or formal networks. In developmental process, world has witnessed that the individuals, organizations, take advantage of the new products. Through network, this brings them economic advantage over others. There are many models and structures of networks which are used in different studies directly relating to the economics of networking.

1.5 Transactions Cost

Transactions cost broadly refers to the cost involved in exchange. These are costs that prevent market from operating efficiently or factors that prevent markets from forming altogether. Transactions cost occur both on the lenders' side as well as on the borrowers' side (Louis Masuko, 2003). Transaction costs are those over and beyond the price of the product or service procured. They broadly break down into motivation and coordination costs (Milgrom and Roberts 1992). Opportunism (Williamson 1985) and agency costs (Jensen and Meckling 1976) and are components of motivation costs. Coordination costs include search (Stigler 1961), input coordination (Armen and Demsetz 1972), and measurement costs (Barzel 1982). In reality, these costs can be extended across multiple economic exchanges. Indeed, the focus of Transaction Cost Economics is on transactions costs, but transactions also have benefits. In a manner analogous to transaction costs, transaction benefits are the benefits incurred in making an economic exchange (Watson et al. 2005). Transaction benefits are above and beyond those benefits of direct financial return. They can exist at an individual level and/or an organization. (Boudreau, 2007) In fact, area study intends to capture the benefits of institutional network by the MSMEs.
1.6 Importance of MSMEs in Development

MSMEs (Micro, Small and Medium Enterprises) are treated as backbone of economies of any country, since they create jobs, use local resources, skills, less capital intensive, simple and flexible technology adoption and can be replicated based on the need of the region. Ancillary units which support Mega industries are also MSMEs provide support services. They contribute to social justice & decentralization of economic activities. Concept of cluster development has been engine for fostering the growth of MSMEs and artisan sector. These clusters add value to the economic growth. Worldwide, MSMEs have been accepted as the local players of economic growth for promoting equitable development. The MSMEs constitute over 90 percent of total enterprises in most of the economies and are credited with generating the highest rates of employment growth and account for a major share of industrial production and exports. In India too, the MSMEs play a pivotal role in the overall industrial economy of the country. It is estimated that in terms of value, the sector accounts for about 45 percent of the manufacturing output and around 40 percent of the total export of the country. Further, in recent years the MSME sector has consistently registered higher growth rate compared to the overall industrial sector. There are over 6000 products manufactured by MSMEs. As per available statistics, this sector employs an estimated 595 lakh persons spread over 261 lakh enterprises and the labour intensity in the MSME sector is estimated to be almost 4 times higher than the large enterprises (GOI, 2012).
Figure 1.1

Product of MSMEs in India

Source: Annual report of MSME 2011-12 of MoMSME GOI Registered Sector

Given the pivotal role of MSMEs in the economic development of the country, this sector deserves a strong institutional support for its development. Besides the emerging challenges under globalization demand business information, networking as well as institutional support for their survival it is in this context present thesis aims at examining the development of MSMEs in the background of the supporting institutions.

1.7 National Institutions in Promoting MSMEs

Many countries of the world have established SME Development Agency as the nodal agency to coordinate and oversee all Government interventions in respect of the development of this sector. In India, Development Commissioner (Micro, Small and Medium Enterprises) functions as the nodal Development Agency under the Ministry of Micro, Small and Medium Enterprises (MSME).

Office of Development Commissioner (SSI) was established in 1954 on the basis of the recommendations of the Ford Foundation. Over the years, it has been seen that its role has evolved into an agency for advocacy, hand holding and facilitation for the small industries sector. It has over 70 offices and 21 autonomous
bodies under its management. These autonomous bodies include Tool Rooms, Training Institutions and Project-cum-Process Development Centers. Office of the Development Commissioner (MSME) provides a wide spectrum of services to the Micro, Small and Medium Industrial sector. These include facilities for testing, tool making, training for entrepreneurship development, preparation of project and product profiles, technical and managerial consultancy, assistance for exports, pollution and energy audits etc. Office of the Development Commissioner (MSME) provides economic information services and advises Government in policy formulation for the promotion and development of MSMEs. The field offices also work as effective links between the Central and the State Governments. Consequent to the increased globalization of the Indian economy, MSMEs are required to face new challenges. Office of the Development Commissioner (MSME) has recognized the changed environment and is currently focusing on providing support in the fields of credit, marketing, technology and infrastructure to MSMEs. Global trends and national developments have accentuated office of the Development Commissioner (MSME)'s role as a catalyst of development of MSMEs in the country.

Chart 1.1

Structure of Ministry of MSME GOI

Source: Annual report of 2012-13 Ministry of Micro, Small and Medium Enterprises, Government of India
Implementation of policies and various programmes / schemes providing infrastructure and support services to MSME’s is undertaken through its attached office, namely the office of the Development Commissioner (MSME), National Small Industries Corporation (NSIC), Khadi and Village Industries Commission (KVIC); the Coir Board and three training institutes viz, National Institute for Micro, Small and Medium Enterprises (NI-MSME), Hyderabad, National Institute for Entrepreneurship and Small Business Development (NIESBUD) NOIDA, Indian Institute of Entrepreneurship (IIE) Guwahati and Mahatma Gandhi Institute for Rural Industrialization (MGIRI) Wardha, a society registered under Societies Registration Act 186. (GOI, Annual Report, 2012)

1.8 Institutions for Development of MSMEs in Karnataka

The Department of Industries and Commerce, Government of Karnataka is one of the oldest institutions set up under the aegis of the Government. Established in the year 1913 under the erstwhile Princely State of Mysore, the Department oversees the Industrial Development in the State.

The Department acts as a catalyst for the overall development of the industrial sector through effective discharge of developmental and regulatory roles. With a view to promoting investment and trade, the department formulates and implements the policies of the State with respect to industrial development. Identification of Sectoral advantages of the State, leading to inputs to the Government on the human resource development for sustainable and growth-oriented industrialization, has been a crucial role of the department. Facilitating the take off of infrastructure projects that boost the industrial development has also been the department’s forte. The department helps enhance the competitiveness of domestic industry through modernization, technology up-gradation and adoption of best practices. It also provides a forum for entrepreneurs and industrialists through their associations to represent their needs to the Government, which translates into Policies of the State.

The department is able to reach out to the small businesses as well as Industrial Houses by a great degree of decentralization within the organizational structure. The department functions through the Districts Industries Centres (DIC), Khadi and Village Industries Offices(KVIC), various Boards Corporations and Special purpose vehicles. The implementation of policies of the Government is done
through various schemes and the implementation of these schemes is decentralized for faster delivery of services.

Institutions functioning under the Department of Industries and Commerce for the development of MSMEs are, Karnataka State Industrial Investment Development Corporation (KSIIDC), Karnataka State Small Industries Development Corporation (KSSIDC), Karnataka State Handicrafts Development Corporation (KSHDC), Karnataka Industrial Areas Development Board (KIADB), Karnataka Udyog Mitra (KUM), Karnataka Council for Technological Upgradation (KCTU), Karnataka State Coir Development Corporation (KSCDC), Centre for Entrepreneurship Development of Karnataka (CEDOK), Technical Consultancy Services Organization of Karnataka (TECSOK), Visvesvaraya Trade Promotion Centre (VTPC), Karnataka State Khadi and Village Industries Board (KVIB), Karnataka Institute of Leather Technology (KILT), Government Tool Room and Training Center (GTTC), Karnataka State Coir Co-operatives Federation (KSCCF) (Commerce) Leather Industries Development Corporation of Karnataka (LIDKAR now working under the Department of Social welfare).

1.9 Research Gap

The review of various research studies by the research institutions and Government reports reveals the well researched areas concerning MSMEs in terms of finance, marketing, policy analysis, production measurement, trends and issues in the development of MSMEs. However, hardly a few works have focused on the promotional role of the individual institutions in promoting MSMEs. Since 1990s on the other hand, the thrust of research in this sector is on challenges facing the MSMEs since globalization, WTO and GATTs agreement. By and large, the role of institutions and their networking among themselves at various levels and networking with individual enterprises are not discussed in detail. A very important gap that deserves a highlight is that institutional economics in terms of Transactional Cost and the benefits of networking are hardly looked into. But these are the most essential intellectual inputs in the knowledge based on e-biz economy. Further Karnataka as the focused region with an area study of Mysore district (the rationale for selecting the same shall be discussed under methodology) fill a major research gap in the area of MSMEs.
Similarly, the World Investment Report ranks annually the countries of the world based on the investment climate or on the ease with which a business is done. In the latest report, India ranks 134th among 189 countries, which mean the business hassles, are still significant. Therefore, present study shall also throw light on the investment and institutional environment in the field of MSMEs.

With the above focus, the study has attempted to address the following issues.

- Why institutional approach is important for understanding development of MSMEs
- Despite of several institutional measures why MSMEs have not been able to flourish?
- How institutional networking promotes MSMEs development under globalization
- To what extent institutional networking reduces transaction cost and benefit the firms
- What is the perception of the MSMEs in Mysore taluka with regard to institutional environment prevails in the region?
- How critical is the problem of information for MSMEs?

The above research questions constitute the theme of the present study.

1.10 Statement of the Problem


During the past two decades, several Committees and Study Groups have looked into issues relating to MSMEs. These, inter alia, include: Committee to examine the Adequacy of Institutional Credit to SSI Sector under the Chairmanship of Shri P. R. Nayak, the then Deputy Governor (1991), ‘Expert Committee on Small Enterprises’ under the chairmanship of Shri Abid Hussain, Former Member, Planning Commission (1995), High Level Committee on Credit to SSI under the chairmanship of Shri S.L. Kapur, Member, Board for Industrial and Financial Reconstruction (BIFR), Former Secretary (SSI and ARI), Government of India (1998), ‘Study Group on Development of Small Scale Enterprises’ under the chairmanship of Dr. S.P. Gupta, the then Member, Planning Commission (1999), Working Group on Flow of Credit to SSI Sector under the chairmanship of Dr. A.S. Ganguly (2003) and Working Group on ‘Rehabilitation of sick SMEs’ under the chairmanship of Dr. K. C. Chakrabarty, the then Chairman & Managing Director, Punjab National Bank (2007). The Report of Prime Minister’s Task Force on Micro, Small and Medium Enterprises (2010), classified the common issues into 6 major thematic areas and constituted separate Sub-Groups for detailed examination. These thematic areas covered credit, marketing, labour, rehabilitation and exit policy, infrastructure, technology and skill development and taxation. Working group of 12th five year plan (2012-2017), Government of India has recommended to focus on the following areas of MSMEs namely, Credit and Institutional Finance, Technology & Innovation, Skill Development, Training, Marketing & Procurement, Infrastructure, Khadi & Village
Industries, Coir Sector, Institutional Structure, Emerging Technologies, Special areas & groups, Unorganized Sector.

Role of institutional networks has not been explicitly investigated in a detailed manner and it is still evidently under-studied area as compared to the amount of importance which has been attached to SME-networks and business growth (Street & Cameron, 2007). Current study is a step toward understanding the issues of MSMEs development, policy support and Institutional networking in Karnataka, particularly of Mysore Taluka and to find solution to bridge the gap, keeping in mind the above mentioned framework of studies.

Therefore, based on the nature and direction of the studies on MSMEs from the past two decades, the present theme that is Institutional Networking and the Development of MSMEs in Karnataka, is chosen for an in-depth study. Karnataka is chosen as the case study region and Mysore taluka as case study area. The rationale for selecting the study region as well as area shall be examined in the forth coming pages in the relevant context.

1.11 Objectives of the Study

The main focus of the study is to examine the role of institutional network in promoting the development of MSMEs in Karnataka. The work is further strengthened by a case study of Mysore Taluka. To work intensively with focused areas, the following objectives are formulated.

The following are the major objectives of the thesis.

1. To examine the policy of Government of Karnataka in the development of MSMEs
2. To study the trends in the growth of MSMEs in Karnataka
3. To analyse the status of institutional framework and its role in developing MSMEs
4. To examine the need for capacity building of institutions for supporting MSMEs
5. To study the networking of MSME institutions in the study area
6. To examine critically the response of MSMEs in the study area concerning the institutional support and their network
1.12 Hypotheses

The proposal intends to test the following Hypotheses keeping in view the mentioned objectives

1. Policy interventions have made positive impact on growth of MSMEs in Karnataka.
2. There is no significant difference between Government and Non-Government institutions about poor networking of institutions.
3. Non-Government institutions have positive opinion on time saving by networking of institutions when compared to Government institutions.
4. With regard to the availability of information, there is significant difference between manufacturing and service MSMEs.
5. Compared to manufacturing sector MSMEs, service sector MSMEs are highly dissatisfied with individual institution’s service delivery.
6. There is no difference in opinion that networking of institutions will lead to better delivery of required services to MSMEs.

1.13 Research Methodology

This section presents the methodology of the research, the criteria adopted for selection of industries, and the design of the questionnaire, the data collection and analysis. Finally the tools used for analyses are also discussed. Reliability, ethical consideration and validity of the study are also discussed. Based on the methodology results are derived, interpreted and policy suggestions are presented in the concluding chapter.

Data Source

Data collection is essential part of the research work. Data collection involves both primary and secondary data. Primary data is first hand information collected directly from the original sources through field study. Secondary data is collected from the available relevant data which can be made use in the new research work (Malhotra & Brinks, 1999) (Oparaocha, 2011). The data collection provides the empirical input of evidence that is required for the present research question (Remenyi et al., 2005) (Oparaocha, 2011).
As per the study carried out by the (Yin, 2003) and (Saunders et al., 2007) (Oparaocha, 2011) interview method for data collection is considered to be most efficient and the information collected is vital. This technique provides scope for the actors an opportunity to express their point of view which gives researcher wider perspective on the observed process (Charmaz, 2006) (Oparaocha, 2011). For the purpose of collecting the primary data, two types of questionnaires were prepared keeping in view the problem of the research. First set of questionnaire was meant for the MSME entrepreneurs (Manufacturing and Service Enterprises) and second set of questionnaire was for the institutions. Apart from the questionnaire, the interviews were conducted face-to-face with the entrepreneurs and concerned institution officials. The two questionnaires are provided in the Annexure I and II. Since the questionnaires are based on the Likerts scale and the questions are objective there was no need for designing interview guide.

Sampling

Saunders et al (2003) (Oparaocha, 2011), discuss the sampling methods and opined that it is almost impossible for researches to include all possible members of the relevant population for research observation and the sampling method allows to minimize the data required for the study. The following sections provide the explanation about the sampling methods and criteria used in selecting enterprises and the institutions.

Sampling Method

For the present study purposive sampling is used to select the enterprises and institutions to collect the required information for the research questions. The selection of the enterprises that fit the study in non-probability sampling depends on the experience, knowledge and judgment of the researchers; this approach can be called purposive or judgmental sampling (Babbie, 2009, p.184; Saunders et al., 2009, p. 238) (Oparaocha, 2011). Enterprises and Institutions were selected based on the data available with the District Industries Center (DIC) Mysore and the experience, knowledge and judgment of the researcher.
**Selection Criteria**

The prominent MSME institutions working in the Mysore district were chosen based on the experience and knowledge of the DIC and researcher for the present study. Taluka wise, 10 percent of Micro, Small and Medium Enterprises (MSMEs) registered with DIC Mysore during the five year period 2008-09 to 2012-13 were selected for the current study. Survey interview was conducted with the concerned officers of the institutions and MSMEs.

**Selection of Institutions and MSMEs**

Forty institutions which provide support services for the development of MSMEs were identified for collection of responses. These 40 institutes comprise of infrastructure providers, technology developers and providers, trainers, facilitators, regulators, and Government departments. The response of the Institutions and MSMEs would provide the wider perspective on the Institutional Networking for the development of MSMEs.

The total number of MSMEs registered with DIC Mysore during 2008-2013 is 4361. Therefore, for the present study 10% sample works out to be 436 MSMEs. The data collected from DIC Mysore provided the following details pertaining to MSMEs, name and address, products, date of registration, employment, investment in plant and machinery, total investment, category of entrepreneur (SC / ST / OBC / Minority/ Gen / Ph), gender (male/female), activity (manufacturing or service) and category of enterprise(MSME). The five year MSME list was consolidated for each of all seven talukas of Mysore district. The following formula is used to find out the sample size.

Random sampling formula  \[ n = \frac{N}{1 + N(L/100)^2/1.96^2 p(1-p)} \]

Where \( N \) = total number of MSMEs

\[ L \quad = \quad \text{maximum allowed error (5 percent) } \]

\[ p \quad = \quad 0.5 \text{ assumed} \]

\[ n \quad = \quad \text{sample size} \]
Taking total number of MSME as 4361, as per the formula, the MSMEs needed for survey works out to be 353 for the Mysore district. Mysore taluka is having maximum number of registered MSMEs compared to all other six taluka of Mysore district. Hence the Mysore taluka chosen is as study area and as such the survey enterprises are confined to Mysore taluka. On pro rata basis survey enterprises works out to be 146.

The total number of MSMEs registered in Mysore taluka during 2008-13 is 1808, therefore 10 percent of the MSMEs registered in Mysore taluka is 180. It is 51 percent of the total enterprises eligible for survey in the district and 23 percent more than enterprise needed to be surveyed on pro rata basis. The sample size supposed to be fairly good number for the present study.

The MSMEs registered outside Mysore taluka are mostly the beneficiaries of several schemes of Government like sewing machines, carpentry kits, barber kits etc and they are not actual manufacturing or service enterprises and hence the researcher felt that networking issues will not get sufficient feedback from them. Therefore, MSMEs from Mysore taluka were focused. Individual MSME was contacted and requested to provide the valuable response to the questionnaire in the unbiased manner.

To ensure that the survey of MSMEs from Mysore taluka is sufficient for the study, other taluka data analyzed and discussed about the nature of enterprises with officers of District Industries Centre (DIC). It was understood that no significant feedback would emanate from surveying other taluka MSMEs as maximum enterprises are result of socially oriented schemes. As such informed decision was taken to confine the survey to Mysore taluka and it was felt that the survey of Mysore MSMEs are sufficient and provide representation of the Mysore district.

The 40 institutes which are identified are contacted and the responsible officers requested to provide the response to questionnaire. It was difficult to convince the MSMEs and the institutional officers to provide information.

**Use of Likert Scales**

The researcher found that application of Likerts scale would be appropriate to elicit the required information for the research question. Five-point Likert type of
scale used in this study which the researcher considered to be sufficient enough to capture the best judgment of the respondents befitting the purposes of the study. The use of five-point Likert type of scale was used for measuring institutional performance which was consistent with previous studies (Aragon-Sanchez & Sanchez-Marín, 2005; Spillan & Parnell, 2006; Yusuf & Saffu, 2005) (Hernan Banjo G, 2009).

**Analysis Method**

Different methods are used for analysis of the data. As the questionnaire entirely based on Likert’s scale, the option of using statistical tool was selected for the purpose of analysis. The researcher applies the tool within the framework of research purpose to reach the expected results (Yin, 2003). The data collected is transferred to the statistical tool for analysis and the results are discussed with respect to the objectives and hypotheses. The participants in survey are encouraged to provide the information without any hesitation or bias. It was assured that there will be total confidentiality about the information provided as measure of ethical practice. The processed data obtained from the secondary sources are directly utilized and interpreted in the analysis chapters.

**Statistical Techniques**

To test the hypotheses of the study t-test F-test and Chi-Square tests have been used. F-test has been used for the comparison of variance, as a pre test to t-test. For the mean comparison, t-test has been used. Chi-Square has used for association test.

**1.14 Scope and Importance of the Study**

MSMEs are facing new challenges under the globalization. The free play of market forces create tough environment for the survival of MSMEs. Hence, there is need for a significant change in the approach towards the development of MSMEs. All these days, as elsewhere, in developing country, the Government of India shouldered the responsibility of promoting the growth of MSMEs, because of their importance in decentralized and inclusive growth. The Government over the years created a vast institutional network for the purpose of providing functional, financial and procedural incentives for them. However, with all such support, the results are not
satisfactory. The paradigm shift in development since 1990 has further worsened the situation; it is in this context that the country has strongly felt the need for a new kind of approach towards developing MSMEs. Capacity building of prevailing institutions and the MSME entrepreneurs have received utmost importance in the new strategy.

The study of networks has become very popular in economics in the last two decades. However, networks have been studied in sociology and mathematics for much longer and in recent years networks have also been extensively studied in statistics, physics, computer science, business strategy, geography, and organization theory. It is, therefore, important to clarify what an economic approach brings to the study of networks. Speciality of the economic approach lies in different methodology and this methodology in turn raises substantive questions which have received little attention in other disciplines. In the present study networking of institutions for promoting MSMEs is examined focusing on the economics of information, which facilitates MSMEs to strengthen their competitive edge under the globalization.

Most of the studies relating to the MSMEs are traditional in nature focusing on their problems and prospects on the one hand and the emerging challenges facing the MSMEs since 1990s on the other. However, very few research works have focused on the role of few institutions in promoting MSMEs. Recommendations of these studies are applicable to national, state as well as study region. Creating new institutions is no longer significant to promote development of MSMEs. But the support services are to be presented in integrated manner, to entrepreneurs and MSMEs. Keeping these requirements in view, the proposed study aimed at working on networking of these institutions which enable the MSMEs to share their knowledge information, build their capacity to survive in the global competition. The scope and importance of the study lies in this argument. Hence the study is timely and appropriate.

Present study of Institutional Networking and Development of MSMEs is within the definition of MSMED Act 2006 of Government of India and related amendment. The studies which have been made hitherto and referred under literature review have covered MSMEs as Tiny, Small Scale Industries (SSI) and Medium Scale Industry (MSI). Karnataka is the study region and Mysore Taluka is the area study taluka. Many institutions have been established by governments to mitigate the problems of MSMEs, but they have not recognized the importance of delivery system.
and the end results of the various programmes being implemented through these institutions are not satisfying. This study explores the possibility of making use of existing institutional arrangements for providing networked support for the MSME development, focusing on the benefits of networking.

Previously, research works carried out on the development of MSMEs, like evaluation of functioning of District Industries Center (DIC), Karnataka Small Scale Industries Development Corporation, Growth Centers, industrial estates, women entrepreneurship, financial institutes etc. These studies are basically on single or few related industrial development agencies. These studies have certainly given recommendations for improving the performance of these institutes. Individuals, groups or sector wise industries need more coordinated service delivery rather than special features of each institute. The observations of various committees in India and findings of many studies around the world, especially UNIDO recommends for networking of support institutions for the development of MSMEs.

On the foundation of the previous studies and recommendations, present study has made an effort to analyze the existing condition of institutions, programmes, MSMEs requirements, gaps in fulfilling the aspirations or the needs of MSMEs.

It is widely recognized that in the current economic environment, MSMEs can benefit greatly from being linked in to national, regional, and global networks of institutions, firms and value chains. The establishment of such vertical and horizontal linkages can help MSMEs to overcome inherent limitations with regard to economies of scale and scope imposed by their size and frequent isolation. By connecting themselves to network, MSMEs can realize collective efficiencies and gain access to markets, knowledge, technology, skills and capital which can greatly increase their competition.

1.15 Limitations

The main theme of the thesis is to be understood within the frame work of the following limitations

1. Even though private and non governmental institutions are working to develop MSMEs, the study focused mainly on Government institutions.
2. Savings/ profits on account of reduction in transaction cost due to networking are captured in terms of non-monetary benefits rather than costs.

3. Policy suggestions are based on the industry and business environment and institutions that exist in the study area since the registered units with DIC are taken as case study samples.

4. The difficulties that the researcher had at the field level in terms of logistics, time, money and reluctance on the part of institutions and enterprises to furnish details also matter to limit the study potentials.

5. Some of the institutions covered in the survey are only service providers to MSMEs.

1.16 Chapter Design

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<tr>
<th>Chapter</th>
<th>Title</th>
<th>Description</th>
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<tr>
<td>Chapter I – Introduction</td>
<td>This chapter introduces the background to Institutional Networks in development of MSMEs. Chapter presents concepts, definition, objectives, hypotheses, research questions, data process, methodology and limitations of the study to give overall preview to the reader.</td>
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<tr>
<td>Chapter II – Literature Review Theoretical and Empirical Foundation of MSMEs</td>
<td>This chapter reviews literature from previous studies and provides theoretical and empirical evidence for the study indicating the need for the present research work and lays foundation for objectives and hypotheses therefore, introduces the reader arguments guiding the thesis.</td>
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<td>Chapter III – Policy Intervention by the Government of India and Development of MSMEs</td>
<td>This chapter explains the effort by the Government of India to support development of MSMEs through policy interventions at national level. It provides broad outline of five year plans, industrial policies and growth of MSMEs at global, national levels.</td>
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<td>Chapter IV – Policy Environment and Performance of MSMEs In Karnataka</td>
<td>This chapter presents an overview of the policy environment available and the impact of state policies over the years on performance of MSMEs in Karnataka. The initiatives by state government for developing MSMEs and performance in study region, study area are discussed.</td>
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<td>Chapter V – Institutional Environment of MSMEs and their Networking; an Over View</td>
<td>This chapter throws light on institutional presence in Karnataka and their networking measures in brief. Further, chapter presents profile of Mysore district and institutions working at Mysore for the development of MSMEs.</td>
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<td>Chapter VI – Result and Discussion</td>
<td>This chapter presents an overview of the data-handling process, empirical data gathered from the interviewees, from MSMEs and institutions in study area. The secondary and primary data is provided in tables, charts. It further provides data analysis, interpretation and discussion.</td>
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<td>Chapter VII – Summary of Findings and Suggestions</td>
<td>This chapter presents a summary of the most important findings with respect to objectives of the study and testing of hypotheses. The chapter also provides suggestions for policy interventions and identifies the areas for further research.</td>
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