

## **An Analysis of the Indian Entrepreneurial Ecosystem for the Promotion of Sustainable Enterprises**

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**Abstract:** *Indian Micro, Small and Medium Enterprise (MSME) sector plays a vital role in overall socio-economic progress of the country. Considering the advantageous demographic profile of the country, policymakers are bringing out appropriate support measures for the promotion and development of MSMEs in order to stimulate economic and employment growth. Existing literature proves that high-growth enterprises are the main source of large-scale employment in developed countries. There is a dearth of study of high growth enterprises in India. As such high growth entrepreneurship drastically differs from general entrepreneurship and the policy support required also differs in establishing conventional enterprises from high growth enterprises. In this regard, this study attempts to identify the impending interventions needed for strengthening the high growth sector by mapping the existing MSME schemes with the components of Indian entrepreneurial ecosystem. This analysis reveals that most of the schemes address only few components of the ecosystem and are urban centric. There is a need for special attention towards fostering rural enterprise as well as promotion of high growth enterprises.*

**Key Words:** *Ecosystem; High growth; Micro, Small and Medium Enterprises; Schemes.*

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### **I. Introduction**

The Micro, Small and Medium Enterprise (MSME) sector have been globally recognized as a vital engine for socio-economic development of any country<sup>15</sup>. They are the key instruments for job creation and innovation across countries. The Indian MSME sector contributes 8% to the country's GDP, 45% to the manufacturing output and 40% to the exports earning. It provides 117 million jobs through 66 million units and produces 8,000 diverse products and services<sup>22</sup>. Current MSME employment is at 28 percent of the overall employment and employment generated per investment is also much higher compared to large enterprises. The exports of MSME products have shown the growth of 7.5% during the financial year 2017-18. As per economic survey of India 2017, industrial sector has witnessed the growth rate of 5.2% and the MSME sector has sustained an annual growth rate of 10.8% for the past few years. Also, new enterprises are also growing at 23% in manufacturing and 31% in service sectors. Major trends such as increasing young workforce of 120 million, 60% of GDP driven by increasing domestic demand, increasing middle-class population of more than 267 million, households' healthy savings share of their income at 22%<sup>26</sup>, huge infrastructure investments on smart cities, industrial corridors, technological and knowledge infrastructure projects, increasing Foreign Direct Investment (FDI) inflows of USD 80 billion<sup>25</sup>, huge technology penetration with 600 million internet users, and the 4.0 Industrial Revolution, Policy Reforms<sup>21</sup> etc. are driving large scale opportunities for the growth of this sector<sup>2,8</sup>. Thus, the growth of MSME sector is important in converting the above opportunities into solution for economic progress and job creation<sup>4</sup>.

Research has confirmed that small firms are the largest job providers<sup>11,13</sup>. In order to spur employment, policymakers are strategizing policies for high growth-oriented enterprises<sup>6,23</sup>. Henrekson and Johansson<sup>14</sup> termed high growth firms as 'gazelles' because they create large share of jobs. Considering the demographic dividend, high growth firms are the key solution for the unemployment problem<sup>1,2</sup>. However, the existing policy and support measures have achieved only in establishing millions of subsistence enterprises leaving aside promoting growth-oriented enterprises. It is also observed that the existing support measures have enabled enterprises development in certain pockets of the country's geography resulted in depriving the development of rural enterprises and potential of rural youth. Hence, in order to accomplish inclusive growth and maximizing the contribution of MSME sector for country's GDP, it is essential to focus

on the development of growth oriented and rural enterprises <sup>7,9,10</sup>. This paper aims to provide an analysis of support measures available in the present Indian ecosystem for the promotion of growth- oriented enterprises.

## II. Entrepreneurial Ecosystem in India

The entrepreneurship ecosystem is defined as a social and economic environment necessary for a holistic development of MSME sector <sup>19</sup>. Isenberg’s introduces six components of ecosystem <sup>15</sup> and Mazzarol introduces nine components of ecosystems <sup>20</sup>. These components are entrepreneurship culture development, capital and infrastructure support, human capital development, improved market support, and advisory support. Indian government is contemplating to adopt an all-inclusive approach with special focus on appropriate policy and institutional interventions, accelerating incubation and enabling formalization, addressing infrastructural bottlenecks, facilitating capacity building, enabling access to risk capital, credit and technological interventions for improving underwriting standards and delivery, supporting market linkage and tie-up with public procurement platforms etc. <sup>24</sup>. The existing components of the MSME ecosystem is given in table 1. To fulfill the warranty of building an enterprise eco-system, Ministry of MSME, Government of India through its specialized agencies utilizing their knowledge and expertise come out with various support schemes and incentives for the promotion and development of MSME sector. The ministry’s support can be grouped in to seven components of the entrepreneurial ecosystem for a better understanding and for analyzing the supports available towards enabling an enterprise to be born, germinate, blossom and sustain with specific resolve <sup>3, 17, 18</sup>. Indian entrepreneurial ecosystem is revisited in this paper which consists of seven domains including Institutional and Information Support, Infrastructure support, Human Capital development, Access to Capital, Assistance to Technology, Market Support and Conducive Policies and Culture.

**Table no 1:** Seven components of the MSME ecosystem

| No | Components                            | Purpose  |
|----|---------------------------------------|--|
| 1  | Institutional and Information Support | Hand holding and providing all required information at one place   |
| 2  | Infrastructure Support                | Developing Clusters through incubation and required auxiliary facilities.<br>Developing industrial estates and plots |
| 3  | Human Capital Development             | Building Human Capital through various technical and non-technical skill development                                 |
| 4  | Access to Capital                     | Enabling timely access to credit with or without incentives  |
| 5  | Assistance to Technology              | Quality improvement and cost optimization by enabling development of emerging technology                             |
| 6  | Market Support                        | Broadening of market support and e-marketing   |
| 7  | Conducive Policies and Culture        | Enabling responsive policy formulation and grievance redressing  |

## III. Analysis of MSME Schemes with the Components of Eco System

Ministry of Micro, Small and Medium Enterprises has brought out various policy and support measures to meet out the requirement of Indian entrepreneurial ecosystem. MSME Development Act, 2006 facilitates the overall growth of this sector. This act enables the government to issue direction for implementing programmes such as technology upgradation, skilling, marketing support, cluster development, infrastructure facilities and backward- forward linkages for surging competitiveness. Along with Ministry of MSME, various other ministries also involved in the development of this sector through various schemes <sup>5, 21</sup>. This explains the importance and potential of this sector in job and wealth creation. Ministry of Textiles focuses on the overall growth of the handloom sector and Ministry of Food Processing Industry focuses on Strengthening of Agro based industries and food industries by addressing the various components of ecosystem. It is also to be noted that State Governments have also been formulating attractive schemes and offering incentives in order to attract more enterprises formation in their respective states. Gilbert et al. <sup>12</sup> found that clusters enable higher firm growth rate. This paper aims to map the existing schemes to the various components of Indian entrepreneurial ecosystem as given below in table 2 in order to bring out the gaps in the support system.

**Table no 2: Mapping of MSME Schemes with the components of Ecosystem**

| Schemes  | Institutional & Information support | Infrastructure support | Human capital Development | Access to Capital | Technology Assistance | Market Support | Policy Support |
|--|-------------------------------------|------------------------|---------------------------|-------------------|-----------------------|----------------|----------------|
| <b>Ministry of MSME</b>  |                                     |                        |                           |                   |                       |                |                |
| EDP/EDC  | ✓                                   |                        | ✓                         |                   | ✓                     | ✓              |                |
| NMCP(CLCS- TUS)  | ✓                                   | ✓                      | ✓                         | ✓                 | ✓                     |                |                |
| PMS  |                                     |                        | ✓                         |                   |                       | ✓              | ✓              |
| CDP  | ✓                                   | ✓                      | ✓                         |                   | ✓                     |                | ✓              |
| CLCSS  | ✓                                   |                        |                           | ✓                 | ✓                     |                | ✓              |
| CGTMSE   | ✓                                   |                        |                           | ✓                 |                       |                |                |
| PMEGP  | ✓                                   |                        | ✓                         | ✓                 |                       |                |                |
| MDA  | ✓                                   |                        |                           |                   |                       | ✓              |                |
| ICS  | ✓                                   |                        |                           |                   |                       | ✓              |                |
| ASPIRE   |                                     | ✓                      | ✓                         | ✓                 | ✓                     |                |                |
| SFURTI   | ✓                                   | ✓                      | ✓                         |                   | ✓                     | ✓              |                |
| MAS, Solar Charkha   | ✓                                   | ✓                      |                           |                   |                       |                |                |
| Coir Vikas Yojana  | ✓                                   | ✓                      | ✓                         |                   |                       | ✓              |                |
| Coir Udyami Yojana   |                                     |                        | ✓                         | ✓                 |                       |                |                |
| National SC/ST Hub   | ✓                                   |                        |                           | ✓                 | ✓                     | ✓              | ✓              |
| SPR(NSIC)  | ✓                                   |                        |                           | ✓                 |                       | ✓              |                |
| PPP  | ✓                                   |                        |                           |                   |                       | ✓              | ✓              |
| <b>Ministry of Food Processing Industry</b>  |                                     |                        |                           |                   |                       |                |                |
| Marketing Research and Information Network   | ✓                                   |                        |                           |                   |                       | ✓              |                |
| Strengthening of Agricultural Marketing Infrastructure   |                                     | ✓                      |                           |                   |                       | ✓              | ✓              |
| Grading and Standardization  |                                     |                        |                           |                   | ✓                     | ✓              |                |
| Agro processing Cluster  |                                     |                        | ✓                         |                   | ✓                     |                |                |
| Mega Food Parks  | ✓                                   | ✓                      |                           |                   | ✓                     |                |                |
| Publicity and Marketing  | ✓                                   |                        |                           |                   |                       | ✓              |                |
| <b>Ministry of Commerce</b>  |                                     |                        |                           |                   |                       |                |                |
| Startup India  | ✓                                   |                        |                           |                   |                       |                | ✓              |
| Trade Infrastructure for Export Scheme   |                                     | ✓                      |                           |                   |                       | ✓              |                |
| Modified Industrial Infrastructure Upgradation Scheme  |                                     | ✓                      |                           |                   |                       |                |                |
| <b>Ministry of Finance</b>   |                                     |                        |                           |                   |                       |                |                |
| Standup India, MUDRA   |                                     |                        |                           | ✓                 |                       |                |                |
| <b>Ministry of Textile</b>   |                                     |                        |                           |                   |                       |                |                |
| Capacity Building in Textile Sector  |                                     |                        | ✓                         |                   | ✓                     |                |                |
| Power loom Cluster development   | ✓                                   | ✓                      |                           |                   | ✓                     | ✓              |                |
| Integrated Textile Parks   |                                     | ✓                      |                           |                   |                       |                |                |
| Ambedkar Hastashilp Vikas Yojana   |                                     | ✓                      | ✓                         |                   |                       |                |                |
| <b>Ministry of Chemicals and Fertilizers</b>   |                                     |                        |                           |                   |                       |                |                |
| CDP-PS , Pharmaceutical Promotion and Development Scheme, Cluster Development Programme for Plastic Sector |                                     | ✓                      |                           |                   |                       |                |                |
| <b>Ministry of Communication and Information Technology</b>  |                                     |                        |                           |                   |                       |                |                |
| Technology Incubation and Development of Entrepreneurs   | ✓                                   | ✓                      | ✓                         |                   | ✓                     |                |                |
| Software Technology Parks of India   |                                     | ✓                      |                           |                   | ✓                     |                | ✓              |
| <b>Ministry of Skill Development and Entrepreneurship</b>  |                                     |                        |                           |                   |                       |                |                |
| STAR scheme, Pradhan Mantri Kaushal Vikas Yojana   |                                     |                        | ✓                         |                   |                       |                |                |

#### **IV. Gap Analysis**

From the above table, it is observed that more focus is emphasized on providing information related to establishing an enterprise, infrastructure, human capital and skill development, financial and market support. Most of the schemes address only few components of the ecosystem. However, for the holistic development of the enterprises, an entrepreneur is in need of right information, suitable infrastructure and sufficient capital for acquiring plant and machinery and market opportunities with a positive policy intervention. Also, except few schemes, most of them are urban centric which deprives formation of enterprises in rural India.

Indian MSMEs are heterogeneous nature and obviously every scheme may not be applicable or connected to all the enterprises. There are some schemes aiming only individuals to encourage them for firm star-ups, and some of the schemes are oriented towards finance or marketing support. There are some schemes in position exclusively targeting only firms to assist their growth. Normally it takes minimum 3 to 4 years for an enterprise to get stabilize its business and set in for growth stage. Therefore, the support requirement of these enterprises is different from a juvenile firm. It is observed that most of the subsistence MSEs don't appreciate and take interest in availing the benefits of schemes such as Credit Linked Capital Subsidy, Financial Support to MSMEs in ZED Certification, Lean Manufacturing Competitiveness, Building Awareness on Intellectual Property Rights for MSMEs, Design Expertise for manufacturing MSME sector, Digital Empowerment of MSMEs, Procurement and Marketing, Support Scheme for MSME Development, International Cooperation Scheme and Market Development Assistance. The objectives of these support are for enhancement of quality, increasing productivity, protect environment and ultimately building the competitiveness of Indian MSMEs. Once they are competitive against market forces, it is possible for them to supply to defense and large enterprises including public sectors, export to international markets and produce import substitute items. Only by the virtue of their market strength, the grown-up firms develop confidence to expand, diversify or to spread across various location prompts these firms to recruit more employees, particularly skilled on a continuous phase.

Overall the existing support and policies are mostly towards in increasing the number of enterprises with an aim of enticing individuals of varied background. All these supports are provided to MSMEs in order to create jobs. However, enticing unemployed persons to start new firms may fulfill valuable social policy aim, but they are less likely to foster in job creation in a greater way. Alternatively, promoting high growth enterprises in MSME sector will fulfill the objectives of economic growth and job generation. There is ample scope for stimulating innovation and growth in these sectors which has to be acknowledged<sup>16</sup>. The existent system of unbiased economic and human development provides an opportunity to improve innovative entrepreneurial culture which enables a way for the growth of knowledge and technology-based enterprises. In fact, much of the policies are aimed at supporting extensively on enterprises development such as firm startup and missing largely on employment growth, innovation and scalability. There is a need for special attention towards fostering rural enterprise as well as creation of high growth enterprises irrespective of its location amongst MSME sector.

#### **V. Conclusion**

The objectives of existing MSME ecosystem is to encourage 'anyone from anywhere' to start a firm by providing stable and smooth operating environment, focusing on quantity and stability. Alternatively, promoting high growth enterprises in MSME sector will fulfill the objectives of economic growth and job generation at large scale. Technology based enterprises based on innovation have a competitive advantage and high growth prospects. Hence, the focus must be on enterprise growth in terms of quantity to quality. Therefore, enablers for creation of more potentially growing firms are required for the creation of high-quality jobs.

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