

## **EXPLORING THE FACTORS OF GROWTH & SCALING-UP AMONG MSME'S OF INDIA: A WORLD BANK ENTERPRISE SURVEY DATA STUDY**

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### **ABSTRACT**

The question of why some firms grow while others do not is one of the most intriguing in the field of firm performance and entrepreneurship. The factors which impact the growth of firms range from the issues related to the environment in which these businesses operate and the factors which are internal to the firm. It is widely recognized that the external environment plays a crucial part in firm's growth. External business environment is, a multidimensional concept embodying the prevailing institutional support (*access to finance, training and development*), the regulatory mechanism (*laws and regulations*), economic stability (*policies and programs*), technological opportunities, political scenario and market conditions.

The growth factors of firms can be measured in various ways; the most frequently suggested approaches include increase in any of these indicators such as *sales, employment, assets, market shares, physical outputs or production and profits*. The firms in India are facing a series of external and internal factors constraints that have significant adverse effects on their growth and additionally these are challenges for them to make a greater contribution to the economy. The purpose of this study is to explicitly research and explore factors that are essential for the growth of firms in three Indian states i.e. Gujarat, Maharashtra and Uttar Pradesh. Furthermore the firms of three states are compared with each other on the basis of firm characteristics, and the differences in business obstacles faced by them. The data from World Bank Enterprise Survey is used for interstate comparison and empirical verification.

### **LITERATURE REVIEW**

An exhaustive literature survey was done, *firstly* find out the 'determinants' or 'factors' which impact the growth, scaling-up or performance of the firms. After the survey it was found that there are two type of factors which impact the growth of firms *one* which are internal to the firm and are controllable in nature and the *second* type of factors which are external to the firm and are uncontrollable in nature. In our study we are focussed on the external factors which effect the firm performance. The review of studies is provided along with the variables finalised for the study:-

*Independent Factors (External Factors):* It is strongly argued by a strand of researchers that for firms to grow, it is important to strengthen not only the internal business environment but also the external environment. Changes in the business environment have either a negative or positive effect on the growth or failure of firms in much of developing nations (Beck and Demirguc-Kunt, 2006; Tsai et al., 1991; Zahra and Ellor, 1993; Lumpkin and Dess, 1996; Smallbone and Welter, 2001; McMillan and Woodruff, 2002; Pissarides et al., 2003). Important factors are the formal institutional arrangements majorly provided by the state such as government legislation, business policies and programs; infrastructural facilities, law and order, market conditions and quality of human resource available, these factors impact the development and growth of firms (Ali & Yusuf, 2019; Lee, Oh, & Eden, 2010).

Along with the abovementioned studies some others were also reviewed which have explored various factors such as political scenario, market conditions, legal and judicial framework, technological environment etc. (Thampy, 2010; Manimala, 2008; Subrahmanya, Mathirajan, & Krishnaswamy, 2010; Yogesh, Chandramohan, & Arrakal, 2012; Singh and Khanduja, 2010; Baporikar, 2017; Krishnan and Ganesh, 2014; Kaur and Sharma, 2016; Bisman and Goela, 2010).

## **OBJECTIVES OF THE STUDY**

There is extensive international literature available exploring out the factors of growth in firms that have used the primary or secondary data. But with regard to Indian studies there is still dearth of studies that have relied on the World Bank Enterprise Survey data which is collected directly from the firm owners/entrepreneurs in India. This study compares the data of three states i.e. Uttar Pradesh, Maharashtra and Gujarat and explores the variation in the enterprise characteristics and perception of business obstacles of the firms in these three states. The inter-state comparison on the basis of selected variables will provide insights that why some states are developing and why some states are lagging behind.

The relevance of factors for firm's growth from the perspective of owners/entrepreneurs will give much insight about the dynamics of firm operations in India. Lastly but very importantly no published study was found specifically analysing the perception of the firm owners and performing interstate comparison.

Hypothesis 1: There is no difference in the firm's characteristics of three states that is Uttar Pradesh, Gujarat and Maharashtra.

Hypothesis 2: There is no difference in business obstacles faced by firms of three states that is Uttar Pradesh, Gujarat and Maharashtra.

## **RESEARCH METHODOLOGY**

The study has explored the factors of scale-up or growth from the firm owners. The study has used the World Bank's Enterprise Survey Data. The data of three states Uttar Pradesh, Maharashtra and Gujarat was extracted from the countrywide data of India. The data set for three states comprised of 1,637 firms. The World Bank Survey is an exhaustive survey which collects information on various enterprise characteristics such as type of firms, ownership type, size of firms, age & location of firms etc. The survey also collects data for business obstacles faced by the firm on a 5-point rating scale in which 4 means 'very severe obstacle', 3 means 'major obstacle', 2 means 'moderate obstacle', 1 means 'minor obstacle' and 0 means 'no obstacle'. Data for 16 business obstacles is used in the study such as telecommunications, electricity, transport, access to land, access to finance, custom and trade regulations, tax rates, tax administration, business licensing and permit, labour regulations, practices of competitors, crime theft and disorders, political instability, corruption, courts and inadequately educated workforce. This reveals the severity of obstacles faced by the firms of Uttar Pradesh, Maharashtra, and Gujarat.

## **FINDINGS OF THE STUDY**

Enterprise Characteristics of Uttar Pradesh, Gujarat, and Maharashtra.

*H1: There is no difference in the firm's characteristics of three states that is Uttar Pradesh, Gujarat, and Maharashtra.*

The table 1 below provides information on the characteristics of firms of UP, Maharashtra, and Gujarat. The study analyses the firm's characteristics such as population in the firm's locality, firm size and age, and firm's legal status. The ANOVA test was applied to find out the difference in the characteristics of the firms in these states. While analyzing the data our focus is on finding the difference in firm characteristics of Uttar Pradesh from other States. The statistics of analysis are reported in table. The data analysis shows a significant difference in the distribution of the companies in different states according to the size of the locality in which the firm is situated. The ANOVA result showed that means are statistically significant in all the four firm characteristics measured. In the case of the firms location with respect to the population of the locality the ANNOVA results were significant, the Levene statistics showed that the variances are not equal so the Games Howell test was run to compare the significance in mean of three states. The firm location mean value of Uttar Pradesh was statistically significant with Gujarat and Maharashtra. This means that more firms in Gujarat and Maharashtra are located in highly populated areas which can also be confirmed by descriptive statistics this is one of the reason of industrial advancement in these states.

Table 1:Games-Howell Post-Hoc Test for Enterprise Characteristics of Four States					
Dependent Variable	(I) a2	(J) a2	Mean Difference (I-J)	Std. Error	Sig.
Locality Size of the firm	Uttar Pradesh	Gujarat	.559*	.044	.000
		Maharashtra	.784*	.035	.000
Size of the firms	Uttar Pradesh	Gujarat	.208*	.042	.000
		Maharashtra	.003	.041	1.000
Legal Status of the Firms	Uttar Pradesh	Gujarat	.526*	.050	.000
		Maharashtra	.244*	.054	.000
Age of firms	Uttar Pradesh	Gujarat	.351*	.062	.000
		Maharashtra	-.028	.059	.966
Note: The mean difference is significant at the 0.05 level.*					

The mean difference value was also found to be statistically significant in case of UP and Gujarat (0.559\*) and UP and Maharashtra (0.784\*).

When size of firms variable was compared the mean differences result showed that UP differs only from Gujarat (I-J = 0.208\*). The distribution in the size of the firms was not statistically different with Maharashtra. When we correlate it with descriptive statistics we find that large size firms are highest in UP in comparison to other States.

When the legal status of firms was compared in firm of limited companies, sole proprietorship, partnership and other type of firms of Uttar Pradesh was found significantly different from other states. The mean difference value showed that the firms of Gujarat (I-J = 0.526\*) and Maharashtra (I-J = 0.244\*) both were statistically different with that of UP the descriptive statistics also confirmed that majority of the firms were sole proprietorship in Maharashtra and Gujarat.

When the variable age of firms was compared among the selected States it was found the mean difference of firms in UP and Gujarat (0.351\*) was statistically significant. This means that when we correlate it with the descriptive stats the firms between age bracket 10-20 years were more in Gujarat and Maharashtra. The proportionate distribution in age of firms between UP and Maharashtra was not found significant.

### **Business Obstacles**

*Hypothesis 2: There is no difference in business obstacles faced by firms of three states that is Uttar Pradesh, Gujarat, and Maharashtra.*

There are numerous factors which inhibit the growth of firms in today's fiercely competitive environment. This research question explores the variation in perception of business obstacles felt in three states of study i.e. Uttar Pradesh, Gujarat and Maharashtra. The table 2 below shows the results of the Games-Howell Post-Hoc Test. The analysis shows that on almost all the parameters of business obstacles perceived by the firms the state of Uttar Pradesh is lagging behind Maharashtra and Gujarat. The mean difference was positive was found highly significant in all the parameters when comparison of Uttar Pradesh was done with Gujarat and Maharashtra. The parameters of business obstacles perceptions on which Uttar Pradesh is comparatively lagging behind Gujarat and Maharashtra are Electricity, Telecommunications, Transport, Customs and trade regulations, Access to land, Crime, theft and disorder, Tax rates, Tax administrations, Business licensing and permits, Corruption, Political instability, Access to finance, Labour regulations, Inadequately educated workforce, Courts.

Table 2: Games-Howell Post-Hoc Test showing Difference in Business Obstacles among four states					
Dependent Variable	(I) a2	(J) a2	Mean Difference (I-J)	Std. Error	Sig.
Electricity	Uttar Pradesh	Gujarat	2.387*	.065	.000
		Maharashtra	1.941*	.069	.000
Telecommunications	Uttar Pradesh	Gujarat	1.249*	.062	.000
		Maharashtra	1.056*	.063	.000
Transport	Uttar Pradesh	Gujarat	0.508*	.073	.000
		Maharashtra	0.789*	.084	.000
Customs and trade regulations	Uttar Pradesh	Gujarat	1.084*	.088	.000
		Maharashtra	.820*	.106	.000
Practices of competitors	Uttar Pradesh	Gujarat	-.591*	.074	.000
		Maharashtra	.510*	.077	.000
Access to land	Uttar Pradesh	Gujarat	1.408*	.074	.000
		Maharashtra	.811*	.078	.000
Crime, theft and disorder	Uttar Pradesh	Gujarat	1.361*	.072	.000
		Maharashtra	.952*	.079	.000
Tax rates	Uttar Pradesh	Gujarat	1.186*	.078	.000
		Maharashtra	1.355*	.075	.000
Tax administrations	Uttar Pradesh	Gujarat	1.143*	.069	.000
		Maharashtra	1.424*	.068	.000
Business licensing and permits	Uttar Pradesh	Gujarat	1.048*	.068	.000
		Maharashtra	.724*	.072	.000
Corruption	Uttar Pradesh	Gujarat	1.748*	.078	.000
		Maharashtra	1.192*	.071	.000
Political instability	Uttar Pradesh	Gujarat	.998*	.077	.000
		Maharashtra	.930*	.074	.000
Access to finance	Uttar Pradesh	Gujarat	1.166*	.077	.000
		Maharashtra	.392*	.086	.000
Labour regulations	Uttar Pradesh	Gujarat	.213*	.080	.038
		Maharashtra	.579*	.089	.000
Inadequately educated workforce	Uttar Pradesh	Gujarat	1.010*	.072	.000
		Maharashtra	.576*	.080	.000
Courts	Uttar Pradesh	Gujarat	.495*	.079	.000
		Maharashtra	.869*	.084	.000
Note: The mean difference is significant at the 0.05 level.*					

**Source:** Compiled by Authors

Some of the factors showed significantly high difference in business obstacle perception in Uttar Pradesh with Gujarat such as Electricity (I-J= 2.387\*), Corruption (I-J= 1.748\*), Crime, theft and Disorder (I-J= 1.361\*), Access to Land (I-J= 1.408\*) the positive availability of these factors is far good in Gujarat than in Uttar Pradesh. Similarly Uttar Pradesh also lagged behind from Maharashtra drastically on these factors Electricity (I-J= 1.941\*), and Tax Rates (I-J= 1.355\*).

**IMPLICATIONS OF THE STUDY**

This study's findings has presented several practical implications for policy makers as well as academia. The study has found out the 'barriers of growth' in the external environment in the studied 3 states of India. The results can be validated with the claims of governments' policies and programs. The result of the study on Enterprise Survey Data are reality check as the information is collected by the firm's owners and managers. And the collection of data is also done by non-government actors so the chance of biasness in replies of firms' owners is also reduced. The results have clearly pointed that on what front the firms of Uttar Pradesh are lagging behind when compared to the states of Gujarat and Maharashtra. And in states of Gujarat and Maharashtra there is still huge scope of improvement in removing the business obstacles when compared to best industrialised nations of the world. The study has implications for effective government support system and evaluations of current government programs.

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