

Stagnation of MSMEs in West Bengal: Analysing the Wicked Problem

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Abstract

MSMEs form the basis of the self-employment industry in India. In addition to aiding an effective redistribution of income and resources, they contribute to the large-scale employment of people from marginalised communities. Despite the scholarly push to rejuvenate the MSME industry, government action has been inadequate and several logistical, managerial and financial challenges still persist, hindering the growth of this industry and preventing them from unlocking their complete potential. West Bengal is one such state where, despite an overwhelming portion of the industrial work being done by MSMEs, their operations in most parts of the state are not Pareto-optimal.

This article explores the challenges faced by MSMEs in West Bengal through the epistemological framework of complex systems thinking and a causal-loop analysis.

1. Introduction: The Significance of MSMEs

Micro, Small and Medium Enterprises are considered to be the backbone of our country's economy. Not only are key actors in the nation's emerging manufacturing sector, but are also instrumental in providing livelihood to millions of people, and ensuring a more equitable redistribution of wealth, resources and income. The majority of the microenterprises are owned and operated by marginalised sections, and sustainable growth of these industries is imperative to accelerate poverty alleviation and fulfil the human security requirements of vulnerable groups.

Similarly, we observe the MSMEs industries in the state of West Bengal are significant stakeholders in process of capital formation and generation of livelihood, as the state occupies the second position in the entire country with respect to the number of small businesses operating. Moreover, 90% of the industrial units and more than 50% of the industrial production is actually undertaken by MSMEs in the state (Dutta, 2018).

However, we do observe that these industries face a number of challenges and obstacles which prevent their operations from attaining an increasing rate of growth, leading to an adverse circumstance where the contribution of MSMEs to the GDP in not only West Bengal, but all over India, has declined, with their growth often becoming stagnant (Dutta, 2020). These enterprises are unable to expand like their corporate counterparts, and the complexity of causes and factors which leads to this stagnation implies that this issue has multiple elements which are interrelated, and are simultaneously interacting to bring about the emergence of entrepreneurial stagnation.

2. Business Inertia: Understanding the Wicked Problem of MSMEs

The issue of MSME stagnation, as we would be observing gradually, is an admixture of social, economic, ecological and political inconsistencies which lead to a high degree of ontological uncertainty in these small businesses, as they are very vulnerable to negative externalities. So much so, that scholars have often necessitated that policymaking for MSMEs should incorporate insights from complexity thinking, specifically foresight, resilience and adaptability, to strengthen grassroot self-employment in West Bengal (Sen et al., 2021). This understanding became even more heightened during the COVID-19 crisis, wherein MSMEs in West Bengal stepped up to become the major suppliers of PPE Kits for urgent medical exigencies; where major supply-chain bottlenecks hindered the process of expeditious delivery of services due to absence of anticipatory measures beforehand (Ibid).

Therefore, it is important to observe and speculate as to how we can consider MSME stagnation to be a wicked problem, and why they also exhibit similar levels of complexity as broader socio-cultural issues do.

Upon observing the basic features of a wicked problem, we find that it resonates with the multiple difficulties facing the MSME sector in West Bengal, which also bear semblance to their national-level trends.

To begin with, we find that even articulating the issues of Bengal's MSMEs in a set paradigm of potential barriers is not possible. This is because, the issue of stagnation of micro and small businesses can be comprised of either one or multiple constituent issues, and not all of these issues have to be relevant for every single struggling enterprise. Stagnation of MSMEs in Bengal occur because of lack of access to proper institutional sources of finance, organisational or managerial incompetency, absence of technological and/or skill upgradation and even due to lack of appropriate government intervention to resolve issues of high market competition due to overcrowding of producers (Bhattacharjee and De, 2020). These problems may occur in singularity, or in combination of various proportions and forms. This exemplifies how MSMEs resonate with the characteristics of a wicked problem (Rittel and Webber, 1973).

To illustrate, microenterprises in the Howrah district often do not register themselves with the local District Industries Centres (DICs), from where they can avail multiple benefits such as tax exemptions, subsidies and marketing assistance (Sharma, 2014), and therefore lose out on the same. This lack of registration is a contributing factor to stagnation, but it does not count as the major causal factor that can be identified and formulated for this wicked problem specifically, since 100% of the medium enterprises are already availing good marketing strategies through advertising, and are also being able to access good institutional credit facilities (Lahiri, 2014). This contrasts with the micro and small enterprise units, where lack of registration and knowledge about the same hinders their growth and profit-making much more, and the micro-units often have to rely on middlemen to sell their products, which inflates the price of the product and hurts their profit-earning scope (Ibid). Stagnation also occurs due to inability to access formal credit, but that too cannot be generalised for or even most enterprise units since some financially strong small firms are able to access credit, unlike many others in the same category, and thus do not experience stagnation due to the same reason of credit. Therefore, it is near-impossible to finalise one or a set of few fixed causes for the formulation of the wicked problem of business inertia faced by MSMEs.

Stagnation of MSMEs cannot be solved with a stopping-rule framework as well. This is because any kind of enterprise, even small ones, are subject to a lot of dynamism. Therefore, a particular solution that was devised for MSMEs in West Bengal at a particular period of time might not be relevant to the prevailing market-based and other forms of externalities which may arise over the course of time. Therefore, a solution which does not keep adapting to the continuous changes will never be able to provide course-corrective measures to even a small proportion of the overarching issue.

Ensuring strong banking support through less conservative lending policies to Bengal's MSMEs has always been devised as the solution for bridging the gap between the demand and supply of credit, however we do notice that despite lending policies improving much more in districts such as Howrah and Burdwan, the banking assistance offered by West Bengal Financial Corporation (WBFC) is still very poor in several other Western and Northern districts such as Purba Medinipur and Dakshin Dinajpur (Dutta, 2018). In addition to this,

irregular power supply and poor condition of roads in West Bengal compared to other more developed states such as Gujarat even after nationwide electrification exercises exacerbate the market inaccessibility faced by Bengal's MSMEs (Dutta, 2020). Hence, even if a solution to ameliorate the credit gap is devised, it cannot be the final solution because stagnation will keep occurring due to infrastructural deficiencies such as electricity and roadways. Furthermore, even if both are acted upon, hypothetically, other externalities such as nationwide economic recession leading to supply-chain disruptions or even abrupt happenings such as COVID-19 will add other layers to the already complex problem, thereby obfuscating the potency of such static solutions.

Furthermore, there is ample scope for good or bad decision-making when it comes to discussing policies regarding the state's small businesses. These solutions cannot always be modelled in deterministic senses and hence cannot be reduced to rejection or acceptance of a hypothesis as true or false. This is because most of the resolutions are qualitative in nature. For example, a layman solution often cited for MSMEs is to coerce them to hold some assets as collateral security in order to avail loans, without the implementation of group lending. This leads to small and mostly marginalised micro businesses being unable to avail loans in Bengal due to their restricted finances making incapable of securing a collateral (Lahiri, 2014; Mitra and Agarwal, 2010). This leads to greater disempowerment of microenterprises and widens the credit gap. However, a good policy here to be to relax the conservative lending policies of banks to give collateral-free loans in combination with collateral-necessary loans and microfinance or meso-finance interventions such as SHGs and Cooperatives to promote group which not only reduce risk, but simultaneously increase productive capacity (Dutta, 2020) as greater loan service reinforces capital formation (Islam and Ganguly, 2019).

Most of the solutions devised for rejuvenating the growth rate of MSMEs cannot be easily deemed successful since their outcomes take time to materialise. Although marketing and regular electricity connections are some of the solutions which are relatively easier to implement and evaluate, processing of credit guarantee schemes such as CGMSE, building MSME-specific credit-rating benchmarks, building of good roadway infrastructure, technological development, human capacity building and implementation of government laws on labour rights are all long-term interventions the results or effects of which can only be evaluated after a period of time to see whether they bear a direct correlation to the improvement of the situation, either singularly or in a combination with the different aforementioned factors, or whether there are other underlying causes left unaddressed.

Every single attempt of ameliorating the business inertia of the MSMEs is crucial because a lot of vulnerable livelihoods depend on this industry, and every opportunity lost can push the microentrepreneurs into abject poverty.

As explain above through the numerous examples, stagnation of MSMEs do not have a fixed number of solutions. Even non-ergodic social institutions which happen to be of a predatory nature, such as dereliction of duty, bureaucratic inefficiency, derisive attitude towards marginalised workers and small businessmen do not have certain fixed prescriptions to solve this issue, because not only is the business inertia of MSMEs contextual, with every case being unique in its own way, but also that different degrees of social attitude are often very abstract and variegated in their determination, hence solving the same requires a combination of different techniques in different situations.

It has also been established that the stagnation of MSMEs in Bengal can be explained through multiple reasonings and causes, whether those factors stem from the firms, the government, financial institutions or the market's end.

Finally, any mishap in MSMEs caused by actions undertaken from the government's end has be considered a responsibility of the public institution itself. For instance, lack of WBFC presence in Western and Northern districts of West Bengal, leading to a sad decline of MSMEs in these regions is the sole responsibility of the government. Failure of bridging information asymmetry through quick registration initiatives and prompt, efficient marketing and financial assistance is another policy failure existing on the government's end, mostly of the State but also of the Central government, leading to disastrous consequences for the growth of MSMEs in the state.

3. Interpreting the Causal Loop Structure of Business Inertia of MSME

The given causal loop diagram, noted with negative and positive polarities, explains the different challenges faced by MSMEs in West Bengal through a number of reinforcing and balancing loops.

Unavailability of credit reduces scope of collateral security, whereas the presence of collateral increases the chance of getting a loan, that is, it reduces the unavailability of credit (Lahiri, 2014). Hence, this forms a reinforcing loop, as there is only positive polarity observable.

Absence of registration increases information asymmetry, and tax-evading practices, by enterprises, influenced by credit unavailability, increases the probability of firms not registering themselves (Sharma, 2014). Information asymmetry also leads to reduction of creditworthiness by the firms as it creates opacity between the lender and borrower (Biswas et al., 2018). This creates a balancing loop, due to presence of one negative and remaining positive polarities. Another example, though of a reinforcing loop, would be of the non-ergodic social institutions leading to an increased practise of providing low wages, that in turn leads to greater workers' unrest and this heightens the risk involvement of the firm.

Irregular power and electricity supply for MSME units in West Bengal, reduces possibility of technological upgradation (Lahiri, 2014; Dutta, 2020). However, presence of technological upgradation does translate into increased capital formation (Biswas and Pandey, 2016). Hence, this can be considered as an example of a balancing loop.

Similarly, in-house skill development leads to a reduction in managerial inefficiency, however managerial inefficiency leads to a more problematic documentation and accounting procedure (Lahiri, 2014), which is aggravated by conservative banking policies mandating cumbersome paperwork. This is also an example of a balancing loop, where the increase in one direction is leading to a decrease in the subsequent phenomenon.

4. Conclusion

Finally, we observe that the problem of MSMEs stagnating in West Bengal has to be solved using principles of anticipatory governance techniques, which will infuse a level of resilience into the microenterprises and help them emerge from the persisting wicked problem they currently face.

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