

A STUDY ON IMPACT OF BUSINESS DEVELOPMENT PRACTICES IN MSME PERFORMANCE

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Abstract

Business development practices are the vital requirement for the growth of Micro, Small and Medium Enterprises. Regular and continuous practice of business development practices may enhance the performance of MSME units. Therefore, the present study commenced with the intention to measure the impact of business development practices in MSME performance. This study has been commenced with the intention to examine business development practices in MSME performance. The study was conducted with a sample of 100 MSME entrepreneurs; data has been collected by using questionnaire amongst the entrepreneurs. Questionnaire has been constructed with three parts, such as demographic profile, impact of business development practices in MSME performance and expectation of entrepreneurs for MSME development. The study used simple percentage analysis, factor analysis and Garrett ranking for the analysis of data collected. Findings showed that research plans and communication, sales plans and forecasting, material plans and technology, recording and forecasting, and resource planning have main impact on business development practices in MSME performance. Results also confirmed that availability of finance with low interest, periodical training for employees and tax holidays during initial years are the most important expectation of entrepreneurs for MSME development.

Key words: Business Development Practices, Entrepreneurs, MSMEs, Performance, Expectation.

1. Introduction

Entrepreneurship is the process of setting up one's own business as distinct from pursuing any other economic activity, be it employment or practising some profession. The person who set-up his business is called an entrepreneur. The output of the process, that is, the business unit is called an enterprise. It is interesting to note that entrepreneurship besides providing self-employment to the entrepreneur is responsible to a great extent for creation and expansion of opportunities for the other two economic activities, that is, employment and profession. And, in the process, entrepreneurship becomes crucial for overall economic development of a nation. Every country, whether developed or developing, needs entrepreneurs. Whereas, a developing country needs entrepreneurs to initiate the process of development, the developed one needs entrepreneurship to sustain it. In the present Indian context, where on the one hand, employment opportunities in public sector and large-scale sector are shrinking, and on the other, vast opportunities arising from globalisation are waiting to be exploited; entrepreneurship can really take India to the heights of becoming a super economic power. Thus, the need for entrepreneurship arises from the functions the entrepreneurs perform in relation to the process of economic development and in relation to the business enterprise.

MSME in India enjoy a distinct position in view of their contribution to the socio-economic development of the country. The emphasis on MSME has always been an integral part of India's industrial strategy. Development of MSME prevents migration of rural population to urban areas in search of employment and contributes to other socio-economic aspects, such as reduction in income inequalities, dispersed development of industries and linkage with other sectors of the economy. Entrepreneurship is creative in the sense that it involves creation of value. By combining the various factors of production, entrepreneurs produce goods and

services that meet the needs and wants of the society. Every entrepreneurial act results in income and wealth generation. Entrepreneurship is creative also in the sense that it involves innovation-introduction of new products, discovery of new markets and sources of supply of inputs, technological breakthroughs as well as introduction of newer organisational forms for doing things better, cheaper, faster and, in the present context, in a manner that causes the least harm to the ecology/environment.

2. Statement of the Problem

Business development practices is concerned with the execution of essentially important strategies for combining a value proposition, creating value and capturing value for an existing business. Globalization, better access to information, ease of communication and rapid technological development in the new global economy have resulted in increased competition and more informed consumers. It offers new businesses the opportunity to differentiate themselves on the market and gain an inimitable competitive advantage. Improving business success is a macroeconomic imperative, as entrepreneurship plays an important role in sustainable economic growth. Business models are facilitators of opportunities for entrepreneurs, representing the cognitive link between the business evaluation of the opportunity and its exploitation. Business models are a basic component of the business promulgation process. In this context, economic models become an extremely useful instrument for finding partners and investors, because they contain all the information relating to the way in which the company plans to create value which can generate income which will guarantee sustainable survival of the business. Therefore, the business models reflect the value creation and delivery architecture, specifying the instruments that will be used to meet customer needs.

3. Review of Literature

Kannan & Sudalaimuthi (2014) revealed that own finance and borrowed finance are the major source of finance to the small scale industries. Change et al. (2011) divulged that MSMEs are the most dynamic industries of a nation; it contributes significant level of GDP to the economy. Asemokha et al. (2019) disclosed that entrepreneurial activities such as opportunity seeking and exploitation, innovation, activeness, and risk-seeking behaviour of entrepreneurs across national borders. Eggers et al. (2013) showed that government financial support and subsidy, credit guarantee funds scheme, market development assistance scheme, and tax sops are the major financial support and sources. Aziz & Omar (2011) revealed that business development and changes in business practices perspective are considered as a useful way for organizational success. Wavhal (2017) investigated that fluctuating raw material supply and price, lack of skilled labour, and marketing problems represent significant problems to the small scale units. Findings of the study showed that funding institution support on preparation of technical and feasibility report, government support on ease of licensing process, marketing support, and financial assistance act as assisting factors to small units. Guo et al. (2017) revealed that business models are much broader than strategy in that they establish how firms can potentially create value. Anwar & Shah (2018) business development is a key success factor for SMEs internationalization activities along with the international performance. Rawlani & Vaidya (2016) investigated that the productivity enhancement techniques in MSME. It is concerned with maintenance of quality standards, credit access, regulatory problems, and so on. Ibor et al. (2015) stressed that the most expectation of MSME units is financial support, technical support and marketing assistance, of which, finance is required for all activities.

4. Research Objectives

The present study was started with the objectives proposed below.

1. To examine the demographic profile of MSME entrepreneurs.
2. To measure the impact of business development practices in MSME performance.
3. To investigate the expectation of entrepreneurs for MSME development.

5. Research Methodology

The present study is carried out with a sample of 100 MSME entrepreneurs in Peenya Industrial Area, Bangalore. The study used simple random sampling to select samples. Non-disguised and structured questionnaire is distributed to collect data from the respondents. Questionnaire is used for data collection from the sample respondents. The questionnaire is divided into three parts; the first part intended to collect demographic profile of MSME entrepreneurs. The second part discloses the impact of business development practices in MSME performance. The third part reveals about the various components of business development practices. The questionnaire has been pre-tested with 20 entrepreneurs, which deliberated to explore the aspects connected with business development practices of MSME businesses. Therefore, the study is prepared on the premise of descriptive research and it used primary data. For data analysis, the statistical tools like simple percentage analysis, factors analysis and Garrett ranking are used.

6. Results and Discussions

6.1. Demographic Profile of MSME Entrepreneurs

The demographic profiles of MSME entrepreneurs are analyzed and its results are given in table-1.

Table – 1: Demographic Profile of MSME Entrepreneurs

Demographic Variables	Distribution	Sample	Frequency
Gender	Male	92	92%
	Female	8	8%
Age	Less than 30 years	39	39%
	30 – 50 years	44	44%
	More than 50 years	17	17%
Education	School Education	35	35%
	Degree	47	47%
	PG	18	18%
Marital Status	Married	76	76%
	Unmarried	24	24%
Annual Income	Less than Rs.2,50,000	37	37%
	Rs.2,50,000 – 5,00,000	47	47%
	More than Rs.5,00,000	16	16%
Experience	Less than 5 years	38	38%
	5 – 10 years	37	37%
	More than 10 years	25	25%
Nature of Business	Manufacturing	61	61%
	Job work	23	23%
	Processing	16	16%

(Source: Primary data)

Table-1 reveals the demographic profile of MSME entrepreneurs. Gender shows that 92% are male and 8% are female. Age consists of 39% are in less than 30 years of age, 44% are in 30 – 50 years of age and 17% are in more than 50 years of age. Educational qualification discloses that 35% are completed school education, 47% are completed degree and 18% are completed post graduate education. Marital status shows that 76% are married and 24% are unmarried MSME entrepreneurs. Monthly income divulges that 37% are in less than Rs.2,50,000 per month, 32% are in Rs.2,50,000 – 5,00,000 per month and 16% are in more than Rs.5,00,000 per month. Experience shows that 38% are in less than 5 years, 37% are in 5 – 10 years and 25% are in more than 10 years. Nature of business found that 61% of entrepreneurs are engaged in manufacturing activity, 23% of entrepreneurs are involved in job work and 16% of entrepreneurs are involved in processing.

6.2. Impact of Business Development Practices in MSME Performance

The impact of business development practices in MSME performance is measured by execution of factor analysis. At first, Kaiser-Meyer-Olkin (KMO) test of sampling adequacy produced coefficient at 0.796 (79.6%) and Bartlett's test of sphericity showed a significance level of 0.00. In general, a value greater than 0.5 (50%), is assumed to be a sound proof of sampling adequacy.

Table – 2: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		0.796
Bartlett's Test of Sphericity	Approx. Chi-Square	4626.352
	df	300
	Sig.	.000

Table-2 shows that calculated Kaiser-Meyer-Olkin measure of sampling adequacy is 0.787 which shows that the factors responsible for better outcome due to business development practices to the extent of 70.585 percent. In the Barlett's test of Sphericity, the approximate chi-square value is 4626.352 and significance value is (0.000) which is less than the level of significance ($p=0.05$), hence it is clear that the factor analysis considered for data reduction is efficient and justifiable and it also reflected the correlations among the variables considered. The variables connected with impact of business development practices in MSME performance are subjected to factor analysis. For better understanding and interpretation of the results, the factors are rotated using the Varimax method.

Table – 3: Communalities

	Initial	Extraction
Resource planning and maintenance	1	0.583
Development through on joint venture	1	0.544
Speedy and better communication	1	0.586
Use of subsidy based finance	1	0.535
Resource accessibility for operation	1	0.569
Proper employee training	1	0.691
Care on research and development	1	0.732
Proper decision makings	1	0.718
Use of debt finance	1	0.585
Alliances with strategic partners	1	0.597
Prompt payment of tax	1	0.567
Fair pricing policies on product	1	0.693
Different sales channel	1	0.584
Input and output forecasting	1	0.592
Adherence of rules	1	0.691
Collaboration in use of technology	1	0.652
Speed in manufacturing	1	0.554
Understanding customer needs	1	0.576
Proper business record keeping	1	0.703
Periodical audit	1	0.665
Market forecast	1	0.582
Bulk purchase of raw material	1	0.527
Use of modern technology	1	0.743
Proper planning and budgeting	1	0.666
Suitable logistic services	1	0.582

Extraction Method: Principal Component Analysis.

Table-3 exhibits the communality values. However, communality is the proportion of variance in any one of the original variables, which is detained by the extracted factors. The record of the derived constituents is outlined in table-4.

Table – 4: Total Variance Explained

Component	Initial Eigen values			Extracted Sums of Squared Loadings			Rotated Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	6.229	28.125	28.125	6.031	28.125	28.125	3.876	23.506	23.506
2	3.325	17.652	45.777	3.163	17.652	45.777	3.292	16.170	39.676
3	2.124	10.182	55.959	2.045	10.182	55.959	2.466	9.863	49.539
4	1.745	7.893	63.852	1.723	7.893	63.852	2.339	9.356	58.895
5	1.487	6.733	70.585	1.433	6.733	70.585	1.605	6.419	65.314
6	1.163	3.651	74.236						
7	1.122	3.489	77.725						
8	1.034	3.137	80.862						
9	.853	2.413	83.275						
10	.752	2.008	83.283						
11	.712	1.843	85.126						
12	.617	1.466	86.592						
13	.582	1.327	87.919						
14	.531	1.125	89.044						
15	.464	1.056	90.100						
16	.431	1.045	91.145						
17	.416	1.025	92.170						
18	.397	1.020	93.190						
19	.339	1.018	94.208						
20	.314	1.017	95.235						
21	.257	1.015	96.250						
22	.244	1.010	97.260						
23	.193	1.004	98.264						
24	.163	1.001	99.265						
25	.020	0.735	100.000						

Extraction Method: Principal Component Analysis.

Table-4 reveals the labelled initial Eigen values, extracted sum of squared loadings and rotated sums of squared loading. The Eigen value for a factor indicates the total variance attributed to the factor. From the extraction sum of squared loadings, it was learnt that the first factor accounted for a variance 28.125 its Eigen value is 6.229. The second factor accounted for the variance 17.652 its Eigen value is 3.325; the third factor accounted for the variance 10.182 its Eigen value is 2.124. The fourth factor accounted for the variance 7.893 its Eigen value is 1.745; and fifth factor accounted for the variance 6.733 its Eigen value is 1.487. Therefore, in this way, only the factors with Eigen values greater than 0.5 are maintained, the other factors are not included in the model. Since, there are eight factors possessing Eigen value which are greater than 0.5 i.e., out of 25 factors loaded in the factor analysis, only 5 factors said to be extracted from the total 25 factors.

Table – 5: Component Matrix

	Component				
	1	2	3	4	5
Resource planning and maintenance	0.778	0.356	0.101	0.072	0.228
Development through on joint venture	0.548	0.039	0.349	0.156	0.243
Speedy and better communication	0.759	0.294	0.172	0.034	0.063
Use of subsidy based finance	0.736	0.152	0.252	0.066	0.008
Resource accessibility for operation	0.584	0.222	0.088	0.155	0.045
Proper employee training	0.694	0.091	0.189	0.035	0.222
Care on research and development	0.607	0.248	0.072	0.003	0.011
Proper decision makings	0.574	0.196	0.232	0.013	0.144
Use of debt finance	0.534	0.257	0.159	0.038	0.105
Alliances with strategic partners	0.647	0.325	0.328	0.131	0.168
Prompt payment of tax	0.636	0.391	0.356	0.068	0.028
Fair pricing policies on product	0.651	0.293	0.325	0.416	0.135
Different sales channel	0.606	0.143	0.288	0.377	0.145
Input and output forecasting	0.511	0.384	0.201	0.268	0.035
Adherence of rules	0.647	0.299	0.186	0.231	0.076
Collaboration in use of technology	0.731	0.183	0.307	0.006	0.119
Speed in manufacturing	0.665	0.005	0.341	0.043	0.179
Understanding customer needs	0.576	0.068	0.318	0.087	0.197
Proper business record keeping	0.623	0.237	0.235	0.274	0.244
Periodical audit	0.545	0.288	0.091	0.172	0.086
Market forecast	0.585	0.155	0.231	0.076	0.327
Bulk purchase of raw material	0.656	0.006	0.181	0.019	0.154
Use of modern technology	0.544	0.014	0.272	0.059	0.143
Proper planning and budgeting	0.642	0.223	0.096	0.337	0.123
Suitable logistic services	0.536	0.178	0.135	0.310	0.126

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 5 iterations.

Table-5 shows the rotated component matrix, it is a result of VARIMAX procedure of factor rotation. Interpretation is facilitated by identifying the variables that have large loadings on the same factor. Hence, those factors with high factor loadings in each component i.e. values greater than 0.5 were selected.

Table – 6: Rotated Component Matrix

Factor	Va. No.	Variables	Component				
			1	2	3	4	5
F1	1	Resource planning and maintenance	0.775	0.287	0.180	0.159	0.129
	2	Development through on joint venture	0.713	0.112	0.198	0.164	0.195
	3	Speedy and better communication	0.689	0.314	0.094	0.209	0.162
	7	Care on research and development	0.648	0.161	0.166	0.017	0.156
	8	Proper decision makings	0.623	0.263	0.104	0.014	0.151
	9	Use of debt finance	0.622	0.073	0.127	0.055	0.074
	10	Alliances with strategic partners	0.611	0.219	0.044	0.328	0.162
F2	11	Prompt payment of tax	0.087	0.775	0.393	0.178	0.076
	12	Fair pricing policies on product	0.137	0.762	0.170	0.183	0.152
	13	Different sales channel	0.034	0.735	0.061	0.245	0.153
	14	Input and output forecasting	0.002	0.684	0.132	0.300	0.056
	15	Adherence of rules	0.257	0.654	0.160	0.031	0.333
	16	Collaboration in use of technology	0.088	0.626	0.052	0.059	0.016
F3	17	Speed in manufacturing	0.045	0.021	0.756	0.049	0.174
	22	Bulk purchase of raw material	0.031	0.206	0.729	0.202	0.128
	23	Use of modern technology	0.099	0.093	0.702	0.274	0.095
	24	Proper planning and budgeting	0.055	0.212	0.687	0.094	0.056
	25	Suitable logistic services	0.134	0.243	0.676	0.335	0.572
F4	18	Understanding customer needs	0.361	0.129	0.345	0.757	0.192
	19	Proper business record keeping	0.152	0.021	0.146	0.697	0.213
	20	Periodical audit	0.206	0.189	0.218	0.625	0.114
	21	Market forecast	0.049	0.035	0.077	0.617	0.082
F5	4	Use of subsidy based finance	0.208	0.048	0.582	0.039	0.728
	5	Resource accessibility for operation	0.072	0.288	0.022	0.105	0.658
	6	Proper employee training	0.034	0.180	0.204	0.007	0.627

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 5 iterations.

Table-6 depicts that the factors are named separately and highlighted and it shows that the variables 1, 2, 3, 7, 8, 9 and 10 were grouped together as first factor and accounted for 28.125% of the total variance and have been named as ‘Research Plans and Communication’. The variables 11, 12, 13, 14, 15 and 16 are grouped together as second factor and accounted for 17.652% of the

total variance and have been named as ‘Sales Plans and Forecasting’. The variables 17, 22, 23, 24 and 25 are grouped together as third factor and accounted for 10.182% of the total variance and have been named as ‘Material Plans and Technology’. The variables 18, 19, 20 and 21 are grouped together as fourth factor and accounted for 7.893% of the total variance and have been named as ‘Recording and Forecasting’. The variables 4, 5 and 6 are grouped as fifth factor and accounted for 6.733% of the total variance and have been named as ‘Resource Planning’. Therefore, the factor analysis condensed and simplified the 25 variables and grouped them into 5 factors explaining 70.585% of the variability in data. Results confirmed that these factors have impact on business development practices in MSME performance.

6.3. Expectation of Entrepreneurs for MSME Development

Expectation of entrepreneurs for MSME developments is connected with different functional departments of MSME business development. Therefore, the factors are analyzed with Garrett ranking technique and its results are presented in table-7.

Table – 7: Garrett Ranking

Expectations	Weight score	Co-Eff	Rank
Availability of finance with low interest	1016	4.02	1
Tax holidays during initial years	910	3.52	3
Marketing support and strategic planning	871	3.45	5
Feasibility report preparation	874	3.54	4
Assistance for technology update	780	3.16	8
Bridge finance support	866	3.43	7
Periodical training for employees	922	3.65	2
Entrepreneurial training	867	3.42	6

Source: Survey Data

Table-7 reveals that expectation of entrepreneurs for MSME development, availability of finance with low interest fetches the total weighted score of 1016 points and it is ranked first among the expectation of MSME entrepreneurs. It is followed by periodical training for employees with the weighted score of 922 and it is ranked second. The third important expectations include tax holidays during initial years with the weighted score of 910. The fourth and fifth dimensions are feasibility report preparation and marketing support and strategic planning, which fetches 874 points and 871 points respectively. Entrepreneurial training with 867 points ranked as sixth, bridge finance support with 866 points ranked as seventh and assistance for technology update scored 780 points ranked as eighth in the weighted score ranking analysis. It is inferred that these factors are the most important expectation of entrepreneurs for MSME development.

7. Conclusion

Micro and small enterprises are the predominant form of economic activity in low- and middle-income countries. There is broad recognition that the microenterprise sector is highly heterogeneous, with some owners drawn by opportunities to create a business and others drawn by the necessity to scrape out a living. Demographic profile of MSME entrepreneurs shows that 92% are male, 44% are in 30 – 50 years of age, 47% are completed degree and 76% are married. Monthly income divulges that 37% are in less than Rs.2,50,000 per month, 38% are in less than 5 years, 37% are in 5 – 10 years of experience and 61% of entrepreneurs are engaged in manufacturing activity. Factor analysis in relation to impact on business development practices in MSME performance condensed and simplified the 25 variables and grouped them into 5 factors explaining 70.585% of the variability in data. It consists of research plans and communication (28.125%), sales plans and forecasting (17.652%), material plans and technology (10.182%), recording and forecasting (7.893%), and resource planning (6.733%). Results also confirmed that availability of finance with low interest, periodical training for employees and tax holidays during initial years are the most important expectation of entrepreneurs for MSME development.

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