

PEST Analysis for Micro Small Medium Enterprises Sustainability

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Abstract

During the last decade many changes have taken place in the world economy and especially in corporate environment. The business environment today is turbulent and laced with uncertainty which is continuously changing and is full of opportunities and challenges. Particularly Small and Medium Enterprises (SMEs) faces unique challenges in the business environment. SMEs are necessitating changing their practices, technologies and they have to identify the opportunities at the right time and face them with right strategy for the sustainment. In the current scenario, it becomes difficult to the SMEs to sustain and survive unless the costs are correctly accounted for, controlled and reduced so as to sustain and remain in the competitive world. The business environment has gone through rapid transformation. The changes in the business environment can be analyzed from two dimensions viz, Internal and External. The external environmental factors are largely beyond the control of an organization its success will depend to a very large extent on its adaptability to the environment. This PEST analysis acts as a major tool for analysis and helps to understand the political stability of the state, business position, foreign business prospects, environmental opportunities and threats etc. Here an attempt is made to study the role of PEST for the sustainability of SMEs.

Keywords: External Environment, PEST, MSMEs, Sustain and Survival.

1. INTRODUCTION

The Micro, small and medium Enterprises (MSMEs), previously called Small-Scale Industries (SSIs) have a place of pride in our economy. They have a high potential, among others, for generating employment, dispersal to semi-urban and rural areas, promoting entrepreneurship and earning foreign exchange. Aware of this, the MSEM have been accorded a strategic position in the successive five year plans towards fulfilment of the socio-economic objectives, particularly in achieving growth with equity. The term 'Small Scale Industries' has been defined in three ways, the conventional meaning includes cottage and handcraft industries which employ traditional labour-intensive methods to produce traditional products, largely in village households. They employ none or almost a few hired hands. The handloom textile industry is an example. Though once famous, this sector has been steadily declining.

2. OBJECTIVES OF THE STUDY

- ✓ To know the extension level of PEST analysis on the sustainability of MSEM in India.
- ✓ To identify the major reasons or impact factors that influences and affects more on the MSMEs.
- ✓ To offer some suitable recommendations based on the analysis and findings of the study.

3. MSMEs IN INDIA

The Micro, Small and Medium Enterprises (MSME) sector is often recognized as the growth engine of an economy across the world. In India, before the

enactment of Micro, Small and Medium Enterprise Development (MSMED) Act, 2006, the non-agriculture MSME segment was heterogeneous in nature mainly consisting of traditional industries like coir, khadi and silk, Small Scale Service and Business Enterprises (SSSBs), Small Scale Industries (SSIs), Cottage and Village Industries. The Act assimilated all varied industries and also expanded the coverage to include the service sector and medium enterprises. Currently, the MSME sector in India is broadly classified into manufacturing and those engaged in rendering services. These are further classified into macro, small and medium enterprises based on their investments in plant and machinery or equipment as under; The MSME sector, being one of the prominent sectors of the economy, contributes significantly to the country's industrial production, exports, and employment. It also plays an important role in socio-economic development of the country by supporting industrialization in rural and backward areas with a lower capital base. The MSME sector's progress facilitates entrepreneurship development, which in turn assists in wealth creation and achieving inclusive economic growth.

According to estimates, MSMEs contribute over 40% to the total industrial production. In addition, it is estimated to account for 45% of the manufacturing output and 40% of total exports of the country. Further, the sector has outperformed over rest of the industrial sector in terms of growth.

3.1 Products of MSME

MSMEs in India manufactures over 6,000 products including food products and beverages (14.26%),

wearing apparel (13.67%), fabricated metal products (8.96%), repairs and maintenance of personal and household goods, retail trade (8.46%), textiles (6.78%), furniture (6.36%), machinery and equipment (4.66%), other non-metallic mineral products (3.77%), repairs and maintenance of motor vehicles, retail sale of automotive fuel, personal and household goods retail trade (3.72%), wood and wood products (3.53%) and others (25.85%).

3.2 Distribution of MSMEs

The distribution of MSMEs according to sector category and area indicates that the micro segment dominates the sector with 94.94% share. MSMEs in rural areas accounted for 55% of total working enterprises, whereas urban areas MSMEs accounted for a 45% share. The state wise distribution shows that more than 55% of these enterprises are in six states namely Uttar Pradesh, Maharashtra, Tamil Nadu, West Bengal, Andhra Pradesh and Karnataka.

As per the estimates compiled for FY11, there are 31mn enterprises under the MSME sector, which provide employment to around 73mn persons. The fixed investment in the MSME sector stands at 7,734.9bn and production is estimated to reach 10,957.6bn at the end of FY11.

Table 1: Statistics of MSME Sector

Year	No of Working Enterprises (units in Mn)	Employment (units in mn)	Fixed Investment (Rs in Bn)	Production (Rs Bn)	Export (Rs Bn)
2006	12	29	1881.1	4978.4	1502.4
2007	26	60	5007.6	7094	1825.4
2008	27	63	5581.9	7907.6	2020.2
2009	29	66	6217.5	8808.1	NA
2010	30	70	6938.4	9829.2	NA
2011	31	73	7734.9	10,957.6	NA

Sources: Ministry of Micro, Small and Medium Enterprises

Table 2: Growth of MSME Sector

Year	No of units (in lakh)	Output (Rs Cr)	Employment (lakhs)	Exports (Rs Cr)
02-03	109.49	306771	263.68	86013
03-04	113.95	336344	275.30	97644
04-05	118.59	372938	287.55	124417
05-06	123.42	418884	299.85	150242
06-07	128.44	471663	312.52	-

Source: Government of India, Economic Survey

3.3 MSME: Game Changer in 12th Five Year Plan

The Working Group on Micro Small and Medium Enterprises (MSMEs) growth for 12th Five Year proclaims the MSME sector as the foundation of overall manufacturing sector. It has identified six game changers or umbrellas schemes, implementation

of which is crucial for boosting the MSME sector and makes it competitive in the global market. The following table provides for vertical wise proposed allocation for 12th Five Year Plan as well as the recommendations:

Table 3: 12th Five Year Plan

Vertical	Projected BE for 12th plan (Rs in Bn)	Umbrella Schemes
Credit and Finance	195	Operationalisation of SME exchanges for enabling access to equity finance.
Technology up gradation	95	Scheme for acquisition and up- graduation of technology.
Infrastructure Development	114	Developing clusters of excellence. Setting up of 100 tool rooms and process and products .development centers.
Marketing and Procurement	21	Business to business international portal Enabling global. footprints of MSMEs Leveraging defense offset policies in favor of MSMEs.
Skills development and Training	36	Revamped skill developments and capacity building programme. Encouraging young/first generation entrepreneurs by up scaling PMEGP and other programmes.
Institutional Structure	31	Strengthening of institutions- MSME- Dis, EDIs and KVI Institutions. Application of E-tools in promotional and regulatory matters for facilitating easy entry. Real time statistical and policy analysis through strengthening of database.
Total	492	

Source: Working Group of 12th Five Year Plan

3.4 Challenges of MSME Sector

a. Access to adequate credit

Despite several measures adopted by GOI and RBI, availability of credit continues to remain the key hurdle in the growth and investment of the MSME sector. Though there are several sources available for financing, few problems related to each of the sources make it difficult to get credit on affordable terms. The main reason for bank credit is its risk perception about the MSME sector owing to lack of collateral and high transaction cost involved in loan proposal. Absence of equity capital is also hindering the growth. Though private equity is most suitable for MSME, fiscal and regulatory barrier as well as global financial turmoil has dried up the finances from this source. According to statistical data released by 4th census of MSME only 5.16% of total MSMEs both registered and unregistered have availed of the finance through institutional sources. Further, 2.05% of the enterprises have taken finance via non-institutional sources, majority of them i.e. 92.73% belong to no finance or self-finance category. Hence, proactive measures are required to be taken to enhance credit from banks, especially to unbanked population, to divest traditional ownership of family business and methodological infusion of equity to achieve the broad based growth.

b. Inadequate Infrastructure

The availability of quality infrastructure is essential for increasing production, bringing down the cost, achieving economies of scale and resultant synergy. MSME sector can be divided into clusters consisting of old artisans at one end and industrialized enterprises at the other. These are either situated in rural areas of the country or older industrial estates. The state of basic infrastructure in rural areas such as roads, power, water etc is inadequate to support the growth of the sector. In addition, inadequate market infrastructure retail shops, e-commerce, technological infrastructure in the form of R&D center testing lab, tool room etc act as a barrier for them to become a globally competitive firm. Hence, there is need of infrastructure development in the MSME sector, inclusive of all sorts of basic and supporting infrastructure facilities as well as upgrading the existing infrastructure.

c. Skilled labour

MSMEs' role in terms of employment creation is eminent yet, entrepreneurs in the sector complain of having labour shortage. There is insufficient number of vocational training institutes. The available network of Industrial Development Institutes and Information & Communication Technologies (ICT) not only lack adequate amenities but also fail to provide placements. There is a need to have training programmes to train the people in order to combat shortage of skilled labour. In case of enterprises operating on a small scale, certain numbers of people are involved in performing critical role. These organizations, to sustain in future, have to pass on the work systematically to the successors through proper training. The National Policy on Skill Development has set a target of skilling 500 million people by 2022.

d. Technology constraint

In India, the MSME sector is mainly labour intensive and there is also availability of cheap labour. However, technology has its role to play in achieving economies of scale, improving quality, and prevailing over labour shortage. Use of appropriate technology in the manufacturing process, will bring down the cost of production and improve productivity. The current state of globalization, which is characterized by innovation and competition, makes it inevitable for MSMEs to equip themselves with new technology and modernization. The working group on Prime Minister's task force has also recommended total allocation of 95 bn for various schemes under the technology vertical during 12th Five Year Plan.

4. PEST ANALYSIS – A STRATEGIC TOOL

PEST analysis stands for 'Political, Economic, Social and Technological Analysis', developed by **Johnson and Scholes** to indicate the external influences viz., Political, Economic, Social and Technological factors on business firm. It is a technique of environmental scanning to analyze the influence of macro environmental factors on business organization. PEST analysis is basically used as a strategic tool to understand the market share, market growth rate, consumer tastes and habits, political stability of the state, business position, foreign business prospects, environmental opportunities and threats etc.

4.1 PEST analysis may contribute to environmental analysis in three ways.

First	It may enable identification of a smaller number of key environmental influences.
Secondly	It may also be helpful in identifying long term drives of change in environment.
Thirdly	It may help to examine the different impact of external influences on organization either historically or in terms of likely future impact.

Source: Author Developed

a. Political Environment Analysis

The political environment of a region and country to which the SMEs firms relates will have greater impact on its growth and sustainability. The government plays a vital role as the planner, promoter and regulator of business firms. The form of government position is an important aspect of political environment and political stability is an essential factor influencing the growth of business. The philosophy of political parties in power influence business practices. The pro-business philosophy allows entering into arrangements like mergers, acquisition, joint venture, business allowances, outsourcing arrangements etc .in between the SMEs firms across the globe.

b. Economic Environment Analysis

The economic environment of business refers to overall state of the country/region's economy. It has significant impact on the industry structure and profitability of individual firms. Economic factors refer to their character and direction of economic system within which the firm operates. The survival of business and industry largely depends on the purchasing power of people which is dependent on economic environment.

c. Socio Cultural Environment Analysis

The socio cultural dimension of the environment consists of customs, life styles and values that characterize the society in which the firms operate. The culture is the result of complex factors such as religion, language, education, ethical beliefs etc. a social class is identified by income, occupation, life style and class norms. A Socio-cultural component of the environment influences the ability of the firm to obtain resources, market its goods and services, and function within the society. This helps the SMEs to identify the opportunities and threats for their business organization.

d. Technological Environment Analysis

Technology and business are interrelated and interdependent. Technological changes bring many new opportunities as well as causing threat by making existing systems obsolete. The changing technology may affect the demand for a firm's product and services, its production process, and raw materials. The technological development need a careful and timely strategy formulation, others competitors would take a lead in the market position. The advancement of technology can reduce or improve opportunities for a firm. These changes will bring in many new products as well as causing death of many existing products. The below chart reveals the details of the major factors which are currently influencing the Micro, Small and Medium Entrepreneurs (MSMEs) and these factors are subjected to influence the firms based on their different kinds of area of operations.

Table 4: PEST Influencing Factors

Political	<ol style="list-style-type: none"> 1. Political climate and stability 2. political ideology and philosophy 3. stand of opposition parties on business 4. level of political morality 5. law and order situation 6. SMEs taxation, exemption and concession
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Economic	<ol style="list-style-type: none"> 1. State of MSMEs business cycle 2. Distribution of income within the population 3. Government's monetary and fiscal policies 4. Trade restrictions 5. Money supply 6. Industrial production 7. Institutional Lending 8. Productivity of factors of production 9. Stock of food grains and essential commodities
Socio Cultural	<ol style="list-style-type: none"> 1. Social traditions 2. Values and beliefs 3. Level and standards of literacy and education 4. Ethical standards and state of society 5. Extent of social satisfaction 6. Conflicts and Cohesiveness 7. Religion, language, education, ethical beliefs
Technology	<ol style="list-style-type: none"> 1. Computing speed has affected the design and manufacture of products. Examples are CAD, CAM and CIM. 2. Internet technologies are changing the business models and challenging the traditional structure. 3. Technological acquisition and dissemination.

5. SUGGESTIONS

MSMEs, before creating business plans or making decisions, it is important to 'scan' the external environment. This can be achieved through a PEST analysis, i.e. an investigation of the Political, Economic, Social and Technological influences on a business. In addition it is also important to be aware of the actions of your competitors. These forces are continually in a state of change.

They need to take a pro-active approach and be ahead of these changes, rather than hurriedly making alterations to products and processes in a reactive way. As I said in the very beginning, the MSMEs has a high potential for providing employment, dispersal of industries, promoting entrepreneurship and earning foreign exchanges to the country. Because of the significant place the MSME sector occupies in our economy, an appropriate environment needs to be created for the growth and sustenance of the small scale units. This calls for steps to build on the strengths of small units, overcome their weaknesses, exploit their opportunities and ward off against their threats.

The aforesaid four macro environmental factors have significant impact on the survival of the MSMEs and growth prospects. These factors are external environment poses threats to a firm or offers immense opportunities.

A firm may be influenced by changes within the general environment but cannot itself influence the environment. The crucial part of the strategic planning process is the appraisal of the environment of an organization. The MSMEs firm may use scenario planning techniques to forecast in high levels of uncertainty in external environment conditions.

6. CONCLUSION

The MSME sector of India is considered as the backbone of economy contributing to industrial output, exports and produces quality products for the Indian and international markets. Apart from this, it also caters to the job market by creating millions of jobs every year and its contribution to employment is second highest, next to agriculture. SMEs contribute to economic development in various ways such as creating employment opportunities for rural and urban population, providing goods & services at affordable costs by offering innovative solutions and sustainable development to the economy as a whole. The performance of SMEs in India though impressive comes next to China where this sector provides employment to 94 million people with a network of 37 million units. For the same growth continuity, there should be a need of proper techniques to evaluate the factors which are going to affect the business of ESMEs. This PEST external factor analysis helps the MSEM to list out the number of opportunities available to meet and the threats which causes major damages to their business units.

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