DEVELOPMENT OF SUSTAINABLE BRANDS IN THE MICRO, SMALL AND MEDIUM ENTERPRISE (MSME) SECTOR IN INDIA

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ABSTRACT

In the Indian economy, the Micro, Small and Medium Enterprises (MSMEs) form the backbone of inclusive growth. After liberalization, the MSME sector is facing a complex mix of opportunities and challenges. Despite its significant contributions, the MSME sector remains neglected due to its weak marketing and branding. A majority of start-ups fail shortly after inception. The present research is an attempt to identify the significant factors responsible for the development of sustainable brands of the MSME sector and to estimate the impact of these factors on firm performance.

Keywords: Brand Sustainability, Indian Economy, Entrepreneurship, MSME

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1. INTRODUCTION

In the Indian economy, the Micro, Small and Medium Enterprises (MSMEs) form the backbone of inclusive growth. After liberalization, the MSME sector is facing a complex mix of opportunities and challenges. MSMEs contribution to India's GDP is around 37.54 percent (2012-2013). This sector generates employment for over 101 million people in around 44 million enterprises, thereby acting as a prime catalyst to social and economic development. This sector produces about 45% of the total manufacturing output and 40% of India's total exports. MSMEs produce more than 6,000 products spanning a huge range from traditional to high-tech items. MSMEs have steadily maintained a higher growth rate (13% in 2007–2008) vis-à-vis the overall industrial sector (8.70% in 2007–2008), confirming that large enterprises do not drive overall industrial growth, but MSMEs do. (Ministry of MSME, Government of India, 2013),

(Khandwalla, 2001), (Lahiri & Banerjee, 2018). Despite its significant contributions, the MSME sector remains neglected due to its weak marketing and branding. A majority of start-ups fail shortly after inception. The present research is an attempt to identify the most significant factors responsible for development of sustainable brands of the MSME sector, and to estimate the impact of these factors on firm performance.

2. LITERATURE REVIEW

2.1. Literature review in the Indian context

Ramanathan (2013) studied the effectiveness of brand extensions as a marketing strategy. As per this study, brand extensions could be leveraged as a strategy for cost reduction as well as risk mitigation. The research focused on the effects of established parameters of attitude towards the brand extension while also studying the resulting revision of attitude, if any, towards the parent brand. Also, it studied the effect of the number of earlier extensions of a brand, the impact of quality differences across the brand portfolio, and impacts of product category fit and brand image fit.

Ramarao (2012) emphasized that the Indian economy is presently going through a transition stage where it is attempting to jump directly from agriculture to service sector, instead of progressing through a stable intermediate stage of development of the manufacturing sector. The author suggests development through growth of manufacturing and supported his proposition with the economic success stories like US, Japan, Germany, Taiwan and Korea.

Shiralashetti (2012) emphasized the pivotal role of MSMEs as engines of economic growth, for sustaining livelihood and fostering inclusive development. MSMEs account for over 90% of all businesses in most of the developing countries, including India, promoting the highest rate of employment growth, and contribute a greater part of industrial production and exports.

Das (2008) studied the contribution and dominant status of SMEs in India post globalization. The Government's policy focus has also been reviewed. MSME sector shows poor performance both in domestic as well as international markets. The study highlighted that SME cluster promotion efforts without an effective regional development plan would be fruitless.

2.2. Literature review in the international context

Biswas et al. (2013) studied food vending businesses entrepreneurs in Dhaka (Bangladesh), and revealed the brand development problems they faced, for example, insecurity due to threats from law enforcing agencies, lack of finance and extensive burden of credit sales with a slow collection flow, and frequently changing locations.

Hafeez et al. (2012) stressed innovation as the engine to power economic growth for both large scale firms as well as SMEs in a developing country like Pakistan, where SMEs do not focus on innovation due to lack of external inducement. The researchers stressed that innovation is critical to the success of SMEs in developing countries.

Sun (2011) studied not-for-profit SMEs in the UK to explore the usefulness of branding approaches in this sector, the barriers faced in implementing brand strategies, and the relation of such barriers to the applicability of branding.

Bresciani and Eppler (2010) studied the successful start-up ventures of Switzerland adopting a case study methodology, and confirmed that branding is a critical activity for the sustainability and success of the new ventures as it helps to find and retain customers. The study proposed that start-ups should not try to copy branding strategies of large scale firms; instead they should develop more creative, innovative and unconventional branding activities.

Parry and Kupiec-Teahan (2010) studied the marketing approaches and customer relationships in software SMEs, revealing that marketing in software SMEs depends on effective relationship between the SME and its customers; built by providing a quality products, understanding customer requirement, having a professional approach, and forming alliances and partnerships within the technology sector.

Ahonen (2008) explored whether the concept of branding at all exists among SMEs. Using an extensive literature review the researcher illustrated the role of branding among academic SME studies. Focusing on different streams of branding, especially product branding and corporate branding, the study showed that branding in SMEs is a rarely studied phenomenon among academics and when studied, the theoretical background often consisted of product branding even when a corporation is being studied. It proposed that corporate branding issues of SMEs could be more often utilised and studied.

Pullig et al. (2006) explored how firms can position brands to insulate them from negative publicity and how consumers evaluate brands in reaction to such publicity. The study identified two general classes of negative publicity that may affect brand attitudes: (1) performance related (technical in nature), and (2) value related (relates to social acceptance). It is argued that the degree to which negative brand publicity (performance related vs. value related) aligns with a positioned brand attitude (performance based vs. value based) may be an important factor in consumer processing of challenging publicity.

Wong and Merrilees (2005) studied the role of branding strategy in SMEs. Four critical constructs were identified, namely, brand distinctiveness, brand orientation, brand-marketing performance and brand barriers. The authors proposed a ladder of SME brand orientation, where firms move from minimal brand orientation to embryonic brand orientation and finally to integrated brand orientation. Further, it is suggested that most SMEs will lie on the lower steps of the ladder.

Gilmore et al. (2001) stated that SMEs cannot use conventional marketing strategies due to limited resources and inherently different thinking and behavioural orientation of the owners/managers. Characteristics of SME firms and their impact on the marketing approaches were discussed. The importance of the owner/manager's network (personal, social, business, industry and marketing networks) in developing alternative marketing approaches suitable for SMEs has also been stressed in the study.

2.3. Origin of the problem

Das (2008) stressed that economic development of a country is contingent upon the survival of SMEs, which, usually initiated with entrepreneurial drive and few resources, often close down during the initial years. As a country's economic growth is directly related to the survival and growth of these firms, sustainability is a critical focus area for research. Even though the existing literature scarcely focuses on this area, Gilmore et al. (2001) indicated that SMEs, by virtue of their characteristics, should adopt unconventional strategies for marketing and branding to survive. Wong and Merrilees (2005) stressed the role of branding strategy in this context, and Ahonen (2008) emphasized that branding is the only solution for SME firms' sustainability. In a like vein Bresciani and Eppler (2010), opined that MSME branding is critical for their survival and success. MSMEs play a pivotal role in both the manufacturing and services sectors. At micro-economic level, MSME firms must be induced to develop and nurture own brands for the long run, instead of a short-term approach of focus on products / services. Branding is crucial for sustainability of the MSME sector firms, through greater profits and customer loyalty. Government has to play the role of a catalyst to increase awareness regarding sustainable branding, and to provide training and funding. Here, the MSME firms

with scarce resources may not be able to follow the marketing and branding techniques adopted by large-scale firms, and hence they must find innovative strategies for the same. From the above a research gap is evident the area of Indian MSME sector branding. In the Indian context MSME branding remains an underexplored area, thus creating a research opportunity, especially when the Indian economy has walked a long path in a liberalized environment.

3. OBJECTIVES OF THE STUDY

An attempt has been made in the present study to understand the efforts of the small and medium enterprises in their overall operational activities for their survival in the highly competitive business environment. After globalization, Indian economy is so diverse and complex, the sustenance of the small and medium firms is now a daunting task. There is a knowledge gap regarding identification of the parameters in all operational perspectives which are truly responsible for the sustenance of MSME brands. It is pertinent to address the issue at this stage as shrinkage of employment opportunities and equitable distribution of wealth are the major challenges of the present Indian Economy and the policymakers have recognized that the growth and sustenance of small and medium enterprises are the only solution.

The present study is aimed at addressing the uses mentioned below:

1. To identify the parameters responsible for sustainability of the MSME Sector brands.
2. To indicate the emerging factors from the identified items for the explanation of brand sustainability of MSME sector.
3. To estimate the extent of influence of the emerging factors on the performance of the organizations, where annual sales revenue is taken as the objective measure of MSME firm performance.

4. METHODOLOGY

The present study was aimed to measure the branding effort of the select Indian MSME organizations. A perception study was conducted focusing on one broad dimension of branding, namely, brand sustainability. Brand Sustainability was defined as a firm's ability to keep its business and brand in a survival mode (Lahiri & Banerjee, 2018).

4.1. Sources of data

4.1.1. Sampling frame

For the purpose of this study, firms, who qualify in the MSME category, were approached for data collection. The present study is based on primary data collected from 61 select MSME units of specific industrial sectors such as leather, jewellery, garments and hosiery industries, located in and around Kolkata. A set of 15 parameters were chosen to measure Brand Sustainability. Five-point Likert scale were used to design questions for eliciting feedback on the above parameters. Finally, formal interviews were successfully conducted with 193 respondents from 61 firms using the structured questionnaire. The respondents were selected from the entrepreneurs and top-level executives of each firm, who have detailed first-hand information about the firm's policies and strategies and have seen the firm through several challenging years, preferably from its inception. Some entrepreneurs participated in the survey actively, while the rest nominated their senior executives for the survey, having adequate knowledge of company's history, business strategy, changes in the business environment and the changes within the organisation and in their environment.

4.1.2. Sample size and sampling technique

Convenient sampling was used to select 61 MSME firms and from these a total of 193 respondents were chosen for data collection.

4.1.3. Tool for data collection

Personal interviews have been conducted using structured questionnaire (with more than one senior executive in each firm), to discuss issues relating to sustainability and to get their perceptions in this regard. The perceptual study of brand sustainability (indicated as BP1 = broad parameter 1) consists of 15 five-point Likert-type items to measure the marketing practices expected to reflect these underlying dimensions. These measures were identified by the researcher while organizing unstructured interviews with the above respondents and also while conducting a pilot study phase.

Table 1 Measures of Broad Parameter -Brand Sustainability

Item Code	Item Name	Item Description
BP101	Performance stability	business performance indicates a sustainable trend
BP102	Government infrastructural support	government initiatives for infrastructural development
BP103	Policy awareness	awareness of the government policy and framework providing financial support to MSME sector
BP104	Government financial support	perception about the financial support provided by the government for R&D, product development, marketing, etc.
BP105	Access to finance	perception about the financial support extended by the banks and other financial institutions
BP106	Social environment status	perception about present social environment
BP107	Product acceptability	acceptance of product/service in the present market scenario
BP108	Capacity upgradation ability	scope for enhancing the production capacity based on current and projected market demand
BP109	Technological sophistication	induction of modern technology in operations
BP110	Market linkage	extent of market linkage
BP111	Distribution capacity	perception regarding the distribution channels in the national market
BP112	Export capacity	scope for exploiting the international market based on current scenario
BP113	Pricing accuracy	justification of product price based on sales revenue
BP114	Price acceptability	justification of product price based on customer perception
BP115	Degree of competition	offerings of competitors (local/national/global) creating threats for sustainability of the business

4.4. Reliability measure

Reliability of the structured questionnaire was studied using Cronbach's alpha. The brand sustainability variable ($\alpha = 0.807$) is measured with 15 items and the results indicate that satisfactory internal consistency exists. Normality tests for all the variables of brand sustainability have been performed. Large significant values (>0.5) indicate that all the independent parameters are normally distributed.

4.5. Method

An exhaustive study has preliminarily been made to explore all possible parameters responsible for sustenance of the MSME sector brands. The researcher has undertaken discussion sessions with the key persons of the selected MSME firms to validate the identified parameters. Now a factor analysis has been performed to estimate the most significant factors responsible for brand development effort of the MSME sector. Then, the impact of the emerging factors of brand sustainability on the organization was studied by a regression analysis where annual sales revenue was taken as the measure of firm performance.

5. ANALYSIS AND FINDINGS

5.1. Exploratory Factor Analysis (EFA)

The 15 items (parameters) mentioned above were used to measure the antecedents of perceptions of the MSME sector firms regarding Brand Sustainability, where all were subjected to Exploratory Factor Analysis (EFA) with principal axis factoring and varimax rotation. Scree plot and Eigen values have been used to confirm the number of factors to extract (Hair et. al., 1998).

EFA was used to identify the possible factors on which the items loaded. The purpose was also to assess convergent and discriminant validity of the items which together form construct validity of the instrument used.

A four factor model was substantiated by the scree plot (Eigen values > 1) (Refer Fig.3 in Appendix). The four factor model explained 64.699% (Refer Table 3) of the total variance of the dataset and exhibited a Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy 0.719. The KMO value should be over 0.60 for sample size to be considered adequate for factor analysis. The significance level of Chi-Square for Bartlett's Test of Sphericity (0.000) is less than 0.001. Hence, the null hypothesis of no correlation between the items is rejected and factor analysis is found to be applicable in this case.

The emerged factors and the associated items with the concerned factors with factor loadings are listed in Table 2.

Table 2 Factor analysis – brand sustainability: naming dimensions

Factor	Item	Factor Loading
Factor F1: Operational Resource Constraints	BP108: Capacity upgradation ability	0.814
	BP112: Export capacity	0.746
	BP114: Price acceptability	0.715
	BP109: Technological sophistication	0.701
	BP107: Product acceptability	0.671
	BP113: Pricing accuracy	0.489
Factor F2: Favourable physical infrastructure and market linkage	BP103: Policy awareness	0.831
	BP104: Government financial support	0.747
	BP115: Degree of competition	-0.711
	BP110: Market linkage	0.543
	BP102: Government infrastructural support	0.532
Factor F3: Limited Socio economic acceptance of the entrepreneur	BP106: Social environment status	0.828
	BP105: Access to finance	0.683
	BP101: Performance stability	0.586
Factor F4:	BP111: Distribution capacity	0.877

6.2. Regression Analysis

A regression analysis has then been performed taking Annual Sales Revenue (Rs. Crores / Annum) [hereafter referred to as “Sales”] as the dependent variable and the identified factors [F1, F2, F3 and F4] as the independent variables. From the results in Table 3, we can see that that R- value stands good for association between variables and R Square value indicates that the identified factors can explain the variation in Sales at about 52.4% level and the model is also statistically significant.

The mathematical model of regression analysis can be expressed as follows:

$$\text{Sales} = \hat{\beta}_0 + \hat{\beta}_1 F_1 + \hat{\beta}_2 F_2 + \hat{\beta}_3 F_3 + \hat{\beta}_4 F_4$$

$\hat{\beta}_1$ = Co-efficient associated with Factor F1

$\hat{\beta}_2$ = Co-efficient associated with Factor F2

$\hat{\beta}_3$ = Co-efficient associated with Factor F3

$\hat{\beta}_4$ = Co-efficient associated with Factor F4

Table 3 Regression Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.724 ^a	.524	.490	12.21525	.524	15.424	4	56	.000	.914
a. Predictors: (Constant), REGR factor score 4 for analysis 2, REGR factor score 3 for analysis 2, REGR factor score 2 for analysis 2, REGR factor score 1 for analysis 2										
b. Dependent Variable: BP301 [Annual Sales Revenue (Rs. Crores / Annum)]										

In the model, operational resource constraint (F1), favourable physical infrastructure and market linkage (F2) and Limited Socio economic acceptance of the entrepreneur (F3) emerge as the significant ones (ref table 4).

Table 4 Summarized Results of Coefficients of independent variables

	Constant	Unstandardized Coefficients	Standardized Coefficients
F1: Operational Resource Constraints	11.294	-8.324*** (1.577)	-0.487
F2: Favourable physical infrastructure and market linkage	11.294	2.955* (1.577)	0.173
F3: Limited Socio economic acceptance of the entrepreneur	11.294	-8.644*** (1.577)	-0.505

The table shows regression results based on equation (1). The figures in the brackets indicate the standard error. *** and * indicates significance at 1 percent level and 10 percent level respectively.

Table 5 Strategic Focus on the identified dimensions

Factor	Relationship with Sales	Strategic Focus
F1: Operational Resource Constraints	Negative	Should be reduced / solved to increase sales
F2: Favourable physical infrastructure and market linkage	Positive	Should be increased further to grow sales
F3: Limited Socio economic acceptance of the entrepreneur	Negative	Should be reduced / solved to increase sales

6. CONCLUSIONS

This attempt to study the Indian MSME sector has focused on firms located in and around Kolkata, India, from selected industries like leather, jewellery, garments and hosiery. In future, the scope of this work may be expanded to test the soundness and applicability of the major findings taking samples from other industrial sectors as well as other geographical regions in India. The sample size should be enlarged significantly (both in number and diversity of sectors). More specifically, samples from each individual sector can be taken separately to evaluate whether the same strategies would be applicable, and whether there exists any variation in the key factors sector wise. The role of branding in the Indian MSME sector needs to be studied in a holistic view and not just from a marketing standpoint, as the problems of MSME branding are multifaceted and complex. Integrated strategies have to be developed for the Indian MSME sector firms to be sustainable in the long run, where marketing and branding would definitely be crucial issues.

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