



RESEARCH ARTICLE

An assessment of growth indicators and intricacies of Udyam entities in the post-pandemic era

Vishnu Prasad C.*, Ramaprabha D.

Abstract

Udyam registered entities constitute the predominant share of budding business units in India. Udyam registration has in a sense, revolutionized the formalization of the small business sector in India by way of undertaking unprecedented measures and efforts to bring informal units to the ambit of incorporation, especially at a time when these units were trying to insulate themselves against economic shocks caused by the Covid-19 pandemic. Three years down the line, the study aims to have a look at service enterprises, consisting of both trading and non-trading units, to measure their business growth and performance with reference to certain indicators, viz., sales, profits, assets, capital and customer base. An attempt is made to regress profits with the other key indicators. The study also makes a note of the directional relationship that is possessed by each of these indicators with the other parameters. It is observed that building wealth in the form of better assets should be the prime focus of small units, as they possess very good statistical association with returns. Also, sensitizing MSMEs on the role of Udyam, especially in terms of solving and easing out challenges associated with financing, can be instrumental.

Keywords: Economic Shock, Business growth indicators, formalization of business, Udyam.

Introduction

'Ease of doing business' is a critical parameter that is being looked at by many countries, which translates to "almost zero formalities" in starting and operating upon a new business venture. As of 2019, India has been able to achieve a substantial improvement in terms of this ranking by standing 63rd as per the "Doing Business Report," which has been published by the World Bank. This is an unprecedented landmark since the improvement in rankings has been substantial from 140 seconds in 2014. The most essential component of 'Ease of Doing Business' is a very feasible and conducive statutory framework to which business houses are subject to in various phases, including:

- Registration
- Obtaining permits and clearances

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- Operational stages
- Statutory remittances

With respect to micro, small, and medium enterprises in India, with composite criteria for classification, a permanent Udyam registration has been initiated since 2020. The distribution of the Micro, Small, and Medium units in India is quite complex and intricate. For policymakers, administrative authorities and economists, offering suggestions towards provisions has always been challenging and intricate, since the spread of these units has been enormous, both in terms of the ownership status and the nature of activities being carried out. Broadly, based on the nature of activities, the small business sector in India is classified as manufacturing and services. Services are further subdivided into trading and non-trading. Among other forms of ownership, sole proprietors, partnership firms, and corporates are the most rampant forms of business organizations in India. The MSME sector, among others, requires, considerable attention for emerging as a strong determinant of constituting India as a much stronger nation (Srivastava, 2020).

Ever since its inception in 2020, the Udyam portal has proved to be one of the major groundbreaking reforms that India has witnessed in the 21st Century. Formalization of the small business sector has always been spoken about in developing countries, yet huge segments of economies continue to grapple with bottlenecks associated with bringing informal units to the ambit of registration and

legislation. The Government initially proposed that the Udyam registration was meant to serve the needs of only manufacturing and service oriented units. However, post 2021, wholesalers and retailers, who were earlier removed from the definition of the MSME sector in India, have also been brought under the regime. Udyam benefits accrue at the micro and macro-economic levels.

The Covid era witnessed a major fall in terms of the economic health and stability of small businesses in India. Several parts of India and the world alike experienced a closure of many budding units, which were otherwise to become sources of wealth and employment creation for the country. Understanding how the business units fare forms the crux of assessing whether the sector is poised for huge growth potential in the years and decades to come.

Review of literature

The shock caused due to the economic downturn and halt of most commercial activities affected both the 'demand and supply side.' One of the important effects was on the intermediaries and the associated supply chain, negatively affecting the import of raw materials (Sahoo & Ashwani, 2020). A unique observation is made in this regard, where the pandemic has been termed as an 'opportunity' where businesses start looking for many ways and means to come out of their adversities and depend on business resources rather than merely depending upon subsidies and incentives from the Government (Jha & Kumar (2020). Self-reliance signals 'resilience' from the viewpoint of small business units. Resilience in any firm is largely a function of its ability to invest in innovative technology and exploit better opportunities (Sharma & Rai, 2023). A silver lining for most MSMEs is that they have a great flair for innovation and adaptability that helps them to fall in place with changes in the overall structure of the economy and respond better to customer preferences (Manikandan & Sengottuvel, 2021). In this regard, it was observed that the Micro enterprises were the most vulnerable of all in suspending their operations when affected by the pandemic, with suggestive proof that 'additional finance' is among the other determinants (Zhirnov & Adeel, 2024). MSMEs across the world have fared differently in varied facets and parameters of business growth. Research from other countries has revealed certain interesting facets of Economic growth from the perspective of small business units. In the context of Indonesia, financial literacy is said to be a sound influencer of business growth, which is measured through corresponding growth in terms of sales, profits and capital (Maswin & Sudrajad, 2023). There are also some additional growth indicators employed, such as the quantity of labor employed, prospects for growth and expansion, and operating profits (Tumiwa *et al.*, 2020). There are various parameters pertaining to such indicators, which have created enormous challenges for MSMEs. These include finance-related challenges, often resulting from

poor awareness of Government schemes, coupled with low levels of financial literacy (Khatri, 2019). In addition, there are specific problems pertaining to finance that are internal to the firm, which include a lack of sufficient working capital and a weak mechanism to recover from debtors (Maheshkar & Soni, 2021). Yet another factor affecting the profitability of a firm is the productivity of the labor. Labor productivity is the critical determinant of profitability since as labor productivity increases sales, it indirectly affects levels of profitability (Mittal *et al.*, 2022). In order to study business performance, level of sales, profits of the organization, number of employees, and extent of market share enjoyed by firms must have been taken as four variables that can be studied for their association with 'perceived business success' (Rajan *et al.*, 2019).

A more exhaustive set of constructs can also be used where a set of items measured employee indicators, process based indicators, financial and customer indicators, and the mean score was taken to reflect business performance metric (Bagodi *et al.*, 2021). However, unprecedented events such as a pandemic warrant an understanding of 'risky and rapid' changes that might be necessitated from the context of small businesses, which is imperative for survival. Evaluating post-pandemic situations is only possible when bias is eliminated and objective measurement indicators, financial and economic, are considered (Martinez *et al.*, 2023). MSMEs could indeed enjoy some amount of a relative advantage since most of them can be self-dependent and can attempt to produce goods with indigenous resources (Behera *et al.*, 2023). From the context of the present study, a novel effort is made by the present study to identify specific growth and business performance parameters of Indian small businesses. An attempt is made to understand if suggestions could be given towards specific firm characteristics affecting the growth and survival of these businesses in the short and long run.

Methodology

The objectives of the study are:

- To understand the entrepreneurial profile of service-based Udyam entities
- To assess the directional association between various indicators used to measure business growth
- To offer suggestions for the betterment of Udyam registered entities.

Based on the literature survey, for the purpose of the present study, business growth was operationalized to mean "The extent to which an organization experiences improvement in terms of its key variables, including sales, profits, assets, capital, employees, customer base and competitive edge, among others."

The survey instrument broadly consists of two sections, as presented in Table 1.

Based on the operational definition, there are five items that have been used to measure business growth, these five items have been modified with expert opinion and have been incorporated in the instrument. (Resmi *et al.*, 2019). These growth variables have been checked for their association with selected socio-economic variables.

As regards sampling, 150 service based Udyam units have been employed. These units include both trading and non-trading units. The method of sampling used is purposive in nature. All the units are located in Bangalore City, Karnataka.

The study has used descriptive tools to understand specific firm characteristics. Correlation analysis has also been performed to understand the directional relationship among all the variables pertaining to business growth.

Table 1: Particulars of the survey instrument

Section	Particulars
A	Business profile/Business characteristics
B	Items measuring business growth-adapted (Resmi <i>et al.</i> , 2019)

Table 2: Demographic characteristics of Udyam registered entities

Variable	Descriptives
Gender	Male- 106 (70.5%) Female- 44 (29.5%)
Age group	Below 40 years- 79 (53%) Above 40 years- 71 (47%)
Formal qualification	Non-graduates- 129 (86%) Graduates and beyond- 21 (14%)
Business venture	Wholesalers- 18 (12%) Retailers- 82 (55%) Other services/non-trading services- 50 (33%)
Degree of reputation	Very good- 17 (11%) Moderate- 116 (77%) Low- 17 (12%)
Business scale (Turnover)	Below 5 crores- 141 (94%) 5-50 crores- 9 (6%)
Number of owners	1(sole traders)- 122 (81.3%) 2 or more(Firm)- 27 (18%) Others-1 (<1%)

The items used to measure business growth are tested for factor loadings and Cronbach's alpha for consistency using JMP pro 17.

Results and Discussions

Based on the survey conducted, the descriptive statistics on the salient business characteristics are given below:

From Table 2, it can be observed that a considerable portion of the sample is made up of female entrepreneurs(at approximately 30%). There is also a fair distribution of the entrepreneurs with respect to their age groups, and the proportion of young entrepreneurs(below 40 years of age, if 40 years is taken as the cutoff) is slightly higher at 53%. The vast majority of the owners have not completed their formal graduation, at 86%.

Mediocrity has been observed as a major parameter, with most business units reporting moderate reach and reputation. Business with turnover below 5 crores, and in the nature of sole proprietorships, occupies the predominant position and share of the present study.

Table 3 explains the firm's overall returns and customer base have been slightly below average, which suggests mild possible erosion of the number of customers, along with returns. Profits and sales have demonstrated the highest volatility, with a standard deviation beyond 1.3.

On the overall, the growth indicators are centered around 3, which indicates that not much growth and

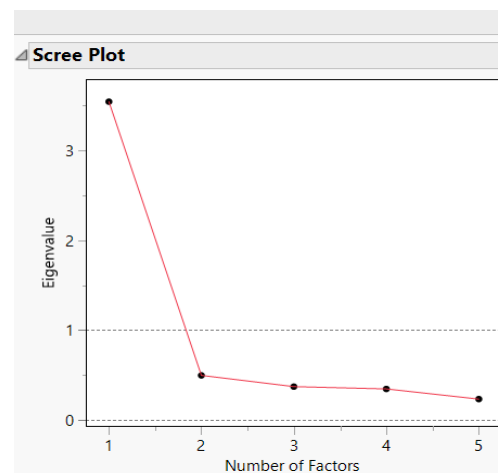


Figure 1: Eigenvalues

Table 3: Descriptive statistics of items measuring business growth

Indicator (with the last 3 years as reference)	AVE	STDEV	Skew	Kurt	CV
If the firm has been able to achieve break-even within a reasonable point of time (BG1)/If the firm's returns have been good	2.94	1.35	-0.005	-1.27	<50%
If the volume of sales has seen an increase (BG2)	3.02	1.37	-0.12	-1.21	<50%
If the assets held by the firm have increased in value (BG3)	3.2	1.25	-0.07	-1.16	<50%
If the overall capital employed has improved over time (BG4)	3.21	1.36	-0.28	-1.11	<50%
If the firm has been able to retain and expand its customer base (BG5)	2.91	1.3	0.18	-1.1	<50%

Table 4: Correlation coefficients of the items measuring business growth

	BG1	BG2	BG3	BG4	BG5
BG1		0.7742	0.7042	0.7073	0.6192
BG2			0.6393	0.6536	0.5755
BG3				0.6259	0.5256
BG4					0.5575

Table 5: Factor loadings using EFA and reliability index of items used towards measurement of business growth

Indicator	Factor loadings (Method: Varimax rotation)	Reliability index
BG1	0.89	Cronbach's alpha: 0.89
BG2	0.82	
BG3	0.79	
BG4	0.78	
BG5	0.62	

Table 6: Correlation coefficients of the items measuring business growth

	BG1	BG2	BG3	BG4	BG5
BG1		0.7742	0.7042	0.7073	0.6192
BG2			0.6393	0.6536	0.5755
BG3				0.6259	0.5256
BG4					0.5575

Table 7: Regression values/coefficients of different variables

Independent variable	Dependent variable	Regression weights	Assumption
Sales	Profits	0.73 ($p < 0.0001$)	Other variables kept constant
Assets		0.76 ($p < 0.0001$)	Other variables kept constant
Capital		0.69 ($p < 0.0001$)	Other variables kept constant
Customer base		0.64 ($p < 0.0001$)	Other variables kept constant

progress have been experienced by the firms, and some amount of stagnation has been observed.

Since business growth is a continuous variable, test for normality becomes important. Since skewness and Kurtosis are quite close to zero, and the sample size is beyond 100, the distribution can be observed as normal.

Table 4 observes that the amount of improvement in profits is highly positively correlated with sales, value of assets and capital invested. However, Sales demonstrate only a moderate correlation with assets, capital invested

and customer base. The assets show a moderate correlation with capital invested and customer base. The customer base shows a moderate correlation with the capital base.

The Screeplot shows that there is only one factor that lies well above the threshold of 1. Therefore, it can be observed that business growth is only one factor (Figure 1).

All factor loadings suggest that the indicators measuring business growth form one construct. Alpha value beyond 0.7 suggests good reliability (Table 5).

Table 6 observes that the amount of improvement in profits is highly positively correlated with sales, value of assets and capital invested. However, sales demonstrate only a moderate correlation with assets, capital invested and customer base. The assets show a moderate correlation with capital invested and customer base. The customer base shows a moderate correlation with capital employed. Therefore, it is observed that high levels of sales, also trickle down to constitute better profits, and the correlation table suggests that the asset employment, capital, and customer bases have had a linear relationship with profits. However, while turnover (sales) seems to move in the same direction as wealth (assets and capital), its directionality with capital is not very convincing.

Therefore, in order to understand how their parameters are causally related to each other, regression lines are checked.

From Table 7, it can be inferred that the strongest leverage points for Udyam service entities are incremental assets and wealth building, followed by improvement in sales and capital, since for every unit of increase in these variables, there is a proportionate increase in profits. Therefore, Udyam entities are required to strike a balance between all these parameters.

Conclusion

Based on the observed sample of Udyam entities engaged in providing services, it can be inferred with a reasonable amount of suggestive evidence that wealth building, in the form of better capital and assets, is an excellent predictor of better returns to these businesses. Both capital and assets, having a bearing on profits, show that rather than focusing on windfall gains, these units require consistency for long-run survival and growth. Turnover has shown a good regression score, indicating not much of resources are lost in terms of payment to creditors and other means of payment.

Registering for Udyam in this direction can prove to be of enormous importance to unregistered MSMEs. Priority sector lending by commercial banks can help build wealth consistently and seize market opportunities since both working capital requirements and long-run challenges associated with finance are solved.

It is also quite reasonable that post-pandemic, the customer base does not appear to move in the same direction as profits since market share penetration can be observed only after reasonable sustained growth.

Therefore, policymaking for Udyam entities must continue to strengthen them and move in a direction that enhances their technical and quality dimensions, which may also channel a 'dream come true' wish of having a better hold over market share.

Surviving a pandemic has nevertheless been a tremendous accomplishment by many Udyam entities. Building resilience to economic shocks is critical, and this is possible only when there is a clear understanding and optimization of the resources of one's own unit.

It is also quite disheartening that many units have deregistered from Udyam, either by way of closure or suspension of operations. Sensitizing MSMEs on modes of survival and alternative diversified channels of business can prove handy in this regard.

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