

## Choice of Location among Entrepreneurs in MSMES: A Comparative Study with Special Reference to the Northern and Southern Regions of Kerala

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### Abstract

Entrepreneurship is considered as the engine of economic growth and development. The choice of location by a prospective entrepreneur assumes great role in deciding entrepreneurial development in regions. The location which is backward regions. It is in this context, the present paper examines location choices of entrepreneurs in MSMES preferred more, is likely to have development and growth of entrepreneurship. Identifying factors influencing location choice is important for developing entrepreneurially. The study has found that there is significant difference in choice of location for entrepreneurship between the regions in a State and as compared to another region, the region with comparatively lesser infrastructural facilities is preferred lesser for pursuing their entrepreneurial dreams.

**Keywords:** Location; MSME; Northern region; Southern region; Kerala; Entrepreneur

### Introduction

Entrepreneurial development enables to improve the quality of life of individuals, families and societies and to sustain a healthy economy and environment. It is seen as a key to economic development in many countries across the globe. Entrepreneurship in the form of micro, small and medium enterprises enable inclusive development in an economy. Entrepreneurship along with laying a strong foundation and support for economic success, promotes development and growth in a country.

MSME sector because of their locational flexibility can be used for rapid industrialisation across rural and urban areas. They encourage growth of local entrepreneurship and thereby create a decentralised pattern of ownership and avoid concentration of economic wealth among a few and results in equitable distribution of income and wealth. MSMEs enable skilled technicians and young entrepreneurs to set up their own business with limited financial resources. They have high labour to capital ratio. High growth and high dispersion make them crucial for achieving the objective of inclusive growth<sup>1</sup>. The employment intensity of the segment (registered units) is 1 person for `1.49 lakh invested in fixed assets, as against 1 person per `5.56 lakh in the large organised sector<sup>2</sup>. Thus they promote production and exports with comparatively lesser investment. As per the 4<sup>th</sup> Census of MSME sector (2011), in India, MSME sector employs 59.7 million persons spread over 26.1 million enterprises and in terms of value, the sector accounts for about 45 per cent of the manufacturing output and around 40 per cent of the total exports. MSMEs contribute about eight per cent of the GDP of the country.

Governments can influence the market mechanisms and make them function efficiently by removing conditions that create market imperfections and administrative rigidities and create an 'enterprise culture' that enables firms to take reasonable risks and seek profits. Socio-economic factors may be as important as the availability of loans, technical assistance, physical facilities and information. Entrepreneurship may not prosper if most members of the society view

it with suspicion. The existence of various environmental conditions increases the chances of emergence and growth of businesses in a country. Though a single factor may have less impact, the interaction of various factors may considerably increase the impact on entrepreneurial development and growth.

### Literature Review

Myrdal and Hirschman [1,2] have explained regional disparities with the help of terms like 'backwash vs. spread effects', 'polarisation vs. trickling down effects'. In his Cumulative Causation Hypothesis, Myrdal points out that the play of market forces normally tends to increase rather than decrease the inequalities between competing regions. Hirschman stressed the tendency of 'polarisation' of free market forces to increase inter-regional inequalities and advocated for government intervention. Report of Fourth All India Census of MSME recognises regional disparity in entrepreneurial development in as follows- 'The Policy of Reservation of Products for Exclusive Manufacture in SSI (now MSEs)' was initiated in 1967 with the objective of achieving socio-economic development, through development and promotion of small units all over the country. This was expected to result in countering the challenges of regional industrial imbalances, employment generation through self-employment ventures, increased productivity etc. Uneven distribution of basic resources needed for industrial development may lead to concentration of industries in a few centres, causing regional disparities in entrepreneurial development.

Several research studies have stressed that regional socio-economic factors support or hinder entrepreneurship. 'The behaviour of individual entrepreneurs and the socio-economic and political infrastructure promotes or hampers the creation and development of

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**Received** March 19, 2019; **Accepted** May 24, 2019; **Published** May 31, 2019

**Citation:** Shacheendran V, Mathew T (2019) Choice of Location among Entrepreneurs in MSMES: A Comparative Study with Special Reference to the Northern and Southern Regions of Kerala. J Account Mark 8: 315. doi: [10.4172/2168-9601.1000315](https://doi.org/10.4172/2168-9601.1000315)

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1 Secretary, MSME Ministry, Government of India. In MSME Business. Nov 2010.

2 Working Group on Micro and Small Scale Enterprises and Agro & Rural Industries for the Eleventh Five Year Plan. 2006. Govt. of India.

entrepreneurship' [3]. Existing theories demonstrate the inseparability of the external environment from the entrepreneurial process. As per Weber's model<sup>3</sup> [4] three factors influence industrial location. These are transport, labour costs and local factors of agglomerative or deglomerative forces. Schmenner [5] points that site and plant difficulties such as higher labour costs and unfavourable labour climate guide enterprise location decisions. 'Not only the direct labour cost, but the quality, productivity and manageability of labour also influence industry location decisions' [6].

The internal factors such as size and years in business, the ability to magnetise financing, marketing and human resource and external factors such as sales tax rates, infrastructure, market condition, business opportunity, and availability of resources, economic conditions, competition, and government regulation are determinants of business success [7]. Location of business also influences business success [8]. Entrepreneurs choose industrial location based on the potential for higher earnings and availability of various inputs needed for enterprise promotion and development. Availability of land, nature and quality of raw materials, transportation facilities, quantity and quality of human resources, infrastructural facilities, finance and government policies etc., are some of the factors influencing industrialisation in a particular region. There are three approaches for industrial location viz., Geographical Approach, Economical Approach and Integrated Approach. Geographical Approach views the decision of industrial location is based on pattern of land, physical features, nature and physical divisions, climate, production and population. Economical Approach considers least cost (raw materials cost, transportation cost, labour cost), market and profit. Integrated approach is a combination of both geographical and economic approaches.

### Importance of the Study

The entrepreneurship in the form of MSMEs can be measured by the variables such as the number of MSME units set up, investment made, value of output and employment generated show that northern region has backwardness as compared to that of the southern region. Table 1 shows the status of number of MSME units registered investment, value of goods and services and employment generated by MSMEs in the northern and southern regions of Kerala.

The southern region consists of 56 per cent of the population and 55 per cent of the geographical area of Kerala State. The northern region accommodates 44 per cent of the population and has 45 per cent of the geographical area of the state. The gap between these two regions is only of 10-11 per cent. However, the table shows that, the entrepreneurship in the form of MSMEs is very lower in the northern region as compared to that in southern region. 70.44 per cent of the total MSMEs in the state are in the southern region as against only 29.56 per cent in the northern region. The per capita MSMEs promoted in the southern region were 0.009 as against only 0.005 in the northern region. The Table 2 also shows that entrepreneurship in the form of MSMEs is very lower in the northern region as compared to that in the southern region. As on 2014, 70.62 per cent of the investment made in MSMEs in the State is in the southern region as against only 29.38 per cent in the northern region. 75.98 per cent of the value of goods and services produced by MSMEs in the State is in the southern region as against only 24.02 per cent in the northern region. The Table

2 also shows that 72.52 per cent of employment generated by MSMEs in the state is in the southern region as against only 27.48 per cent in the northern region. The per capita investment made in MSMEs in the southern region was `0.054 as against only `0.0288 in the northern region. The per capita value of goods and services produced by MSMEs in the southern region was `0.202 as against only `0.082 in the northern region. The per capita number of employment generated by MSMEs in the southern region was 0.046 as against only 0.022 in the northern region. Thus it indicates that the northern region has not achieved proportionate status in MSME entrepreneurship as compared to that of the southern region [9].

Entrepreneurship is influenced by several factors. In order to study the reasons for higher status of entrepreneurship in the southern region than that in the northern region it is vital to understand the location related characteristics influencing exist in these regions. The poor status of entrepreneurship in the form of MSMEs in the northern region may be due to its location related factors.

### Methodology

#### Objectives of the study

The study has the following objectives

1. To examine whether there is regional difference in the choice of location among entrepreneurs in MSMEs in Kerala.
2. To identify whether northern region has backwardness in respect of infrastructural facilities needed for entrepreneurship in MSMEs.

The regional difference in the choice of location among entrepreneurs in MSMEs in Kerala is carried out using percentages. Pearson Chi-Square Test is used to examine whether there is any significant difference exist between the northern and southern regions in respect of location related variables.

#### Hypothesis of the study

Alternate Hypothesis ( $H_1$ ): There is significant difference between the northern and southern regions of Kerala in respect of location related factors influencing entrepreneurship.

Null Hypothesis ( $H_0$ ): There is no significant difference between the northern and southern regions of Kerala in respect of location related factors influencing entrepreneurship.

### Analysis of Findings

#### Reason for starting unit in the district/region

Individuals may be starting enterprise in a particular region / area due to various reasons. Availability of suitable land area is an important reason among them. (Government agencies have developed exclusive areas, for setting up of industrial units, known as 'industrial estates' / 'industrial park' etc.). All types of land areas may neither be equally suitable nor permissible for setting up of an industrial unit. For instance, government departments will not grant license to a proposed industrial unit which is likely to cause pollution in the surrounding area. The other reasons for choosing a district/ region to start an enterprise include 'home land' factor, availability of govt. incentives, availability of raw materials, availability of market for its products etc. More suitable an area is, for setting up of an industrial unit, it is likely to attract more enterprises and will favourably influence entrepreneurship development. The Table 2 shows the reasons for starting unit a particular district/region [10].

3 Weber, enunciated a theory of industrial location, using deductive approach, in 1909. He analyzed the factors that determine the location of industry as (i) Primary causes of regional distribution of industry (regional factors) and (ii) Secondary causes (agglomerative and deglomerative factors) that are responsible for redistribution of industry.

The table shows that the most important reason for choosing location for enterprise is 'home land' factor in both the regions. In the southern region more number of entrepreneurs (70 per cent) has started their enterprise due to 'home land' factor than that in the northern region (50.67 per cent). In the northern region availability of land was the second major reason for starting enterprise. Pearson Chi-Square Test shows that, since  $p=0.00<0.05$ , there is significant difference between the regions in respect of reason for choice of area for starting units by entrepreneurs. Thus the table shows that while in the southern region 'home land factor' is the most important reason for individuals to start units in a region, in the northern region availability of land also attracted people towards entrepreneurship and there is significant difference between the regions in this regard.

### Reason for Choice of Industry

From a promotional perspective, why entrepreneurs have chosen a particular industry in a region assumes great importance. The possible reasons are categorised as 'easy to get raw materials', 'needs less funds to start', 'less competition', 'prior experience' (of the entrepreneur in the industry) and 'others'. The Table 3 shows the reason for choice of

industry by entrepreneurs in the northern and southern regions of Kerala.

The table shows that prior experience is the most important reason for choice of an industry for entrepreneurs in both the northern and southern regions of Kerala. In the northern region 78.67 per cent and in the southern region 66.67 per cent of the entrepreneurs chosen an industry based on their prior experience. The availability of raw materials has caused only a lesser number of enterprises to choose an industry in northern region (2.62%) as compared to that in the southern region (14 per cent). Pearson Chi-Square Test shows that, since  $p=0.0108<0.05$ , there is significant difference between the regions in respect of reason for choice of industry by entrepreneurs. It can be concluded that prior experience is the dominating reason for choice of industry by entrepreneurs [11].

### Infrastructural Facilities Available in Northern and Southern Region of Kerala

Having understood that there is significant difference in respect of region choice by entrepreneurs in MSMEs, the study further analyses

Region	Number of MSME Units Promoted	Total Investment (in Lakhs)	Value of Goods and Services Produced (in Lakhs)	Employment Provided (Nos)
Southern Region	165017	1013646	3787485	863654
Southern Region as % of Kerala	70.49	70.62	75.98	72.52
Per Capita	0.009	0.054	0.202	0.046
Northern Region	69234	421655	1197342	327290
Northern Region as % of Kerala	29.56	29.38	24.02	27.48
Per Capita	0.005	0.0288	0.082	0.022

Source: Economic Review 2014

**Table 1:** Number of MSME units, Investment, Value of Goods and Services and Employment Generated by MSMEs in The Northern and Southern Regions of Kerala As on 31 March 2014.

Reason for Location Choice	North		South	
	Number	Percentage	Number	Percentage
Availability of land	41	27.33	4	2.67
Home Land	76	50.67	105	70.00
Availability of Raw materials / Labour	17	11.33	12	8.00
Availability of Market	7	4.67	9	6.00
Others	9	6.00	20	13.33
Total	150	100.00	150	100.00

Pearson Chi-square: 40.3531, df=4, \* $p=0.0000$ ,  $H_0$ : Rejected

Source: Primary Data

\* Significant at 0.05 level

**Table 2:** Reason for Starting Unit in the Northern and Southern Regions of Kerala.

Reason for Choice of Industry	North		South	
	Number	Percentage	Number	Percentage
Easy to get Raw materials	4	2.67	21	14.00
Need less funds to start	5	3.33	5	3.33
Less competition	9	6.00	10	6.67
Prior experience	118	78.67	100	66.67
Others	14	9.33	14	9.33
Total	150	100.00	150	100.00

Pearson Chi-square: 13.0989, df=4, \* $p=0.0108$ ,  $H_0$ : Rejected

Source: Primary Data

\* Significant at 0.05 level

**Table 3:** Reason for Choice of Industry in the Northern and Southern Regions.

Parameter	Status as a % of Kerala State Total	
	Northern Region	Southern Region
1. Road Network	37.8	62.2
2. Telecommunication (working Connection)	37.5	62.5
3. Motor Vehicles (across types)	33.6	66.4
4. Schools (across types)	37.7	62.3
5. Colleges (across types)	34.2	65.8
6. Professional Work Seekers	21.7	78.3
7. Medical Institutions/ Beds (across types)	35.3	64.7
8. Water Supply Connections	21.3	78.7
9. Bank Branches	32.2	67.8
10. Bank Deposit	22.1	77.9
11. Bank Credit	20.9	79.1
12. Per Capita No. of Industrial Estates by DICs	0.191	0.326
13. Per capita number of SSI units Industrial Estates by DICs	1.678	2.835
15. Per capita number of Major Industrial Estates	0.041	0.059
18. Per capita number of Major DA / DPs promoted by DICs	0.068	0.139

Source: Economic Review 2014, Govt. of Kerala

**Table 4:** Shows the status of infrastructural facilities in northern and southern region of Kerala as on March 2014.

the status of infrastructural facilities available for entrepreneurs in northern and southern region of Kerala. Table 4 shows the status of infrastructural facilities.

The table infrastructural factors affecting entrepreneurial development of a region are poor in Northern Region as compared to that in the Southern Region. The road network (37.8%), telecommunication network (37.5%), motor vehicles (33.6%), schools (37.7%), colleges (34.2%), available of human resource (professional work seekers) (21.75), water supply connections (21.3%), bank branches (32.2%), bank deposits (22.1), bank credit (20.9%), Per Capita No. of Industrial Estates by DICs (0.191), Per capita number of SSI units Industrial Estates by DICs (1.678), Per capita number of Major Industrial Estates (0.041), Per capita number of Major DA/DPs promoted by DICs (0.048) etc. are very lower in Northern Region as compared to that in the Southern Region.

## Concluding Remarks

The study has found that there is significant difference between the regions in respect of choice of location by entrepreneurs in MSMEs. Since the status of entrepreneurship is lower in the Northern Region, it can be concluded that potential entrepreneurs prefer this region lesser as compared to that of the Southern Region. The study has further proved that there is backwardness in infrastructural facilities in the Northern Region as compared to that in the Southern Region. Thus it calls for urgent development of infrastructural facilities in the Northern Region in order to promote entrepreneurship in MSMEs. Special efforts on the part of all the government departments are needed to ensure that various facilities needed for entrepreneurship are made available in the Northern Region.

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