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great by
deeds, not by
birth"

-Chanakya

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**INDIAN MSMES' ENCOUNTER WITH DELAYED PAYMENTS:
A RESOURCE DEPENDENCE THEORY PERSPECTIVE (RDT)**

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Abstract

The growth of the nation is significantly influenced by the MSME sector. It is viewed as the country's economic engine in India. Understanding the numerous issues this sector faces becomes crucial given its significance to the nation's prosperity. The literature on MSMEs includes references from a variety of authors who discuss the numerous issues that MSME industries face globally. The MSME sector, particularly in India, faces numerous challenges, including access to technology, issues with infrastructure, issues getting bank loans, and more. But, one issue on which we concentrate in this article is the issue of delayed payments experienced by the Indian MSME sector from its corporate clients. The government has established numerous policies and measures to aid in resolving this issue because it is one of the most important and frequently encountered issues, yet this problem still persists. So, it is crucial for us to comprehend why MSMEs are still facing this issue and how MSMEs are responding to it. In this article, we have developed a

conceptual framework to examine the relationship between the MSME suppliers and its corporate customers by incorporating the theoretical lens of Resource Dependence Theory (RDT). We did this by utilizing the extensive literature on delayed payments and by using a grounded theory approach to analyze the interviews of 25 entrepreneurs from the MSME sector.

Keywords: MSME Sector, Delayed payments, Resource dependence theory (RDT)

1. Introduction

1.1 Micro, Small and Medium Enterprises

“No matter how many initiatives and laws the government comes up with, we will always face this problem of not receiving our payment on time from our corporate customers”, one of the entrepreneurs I interviewed expressed his distress. Micro, small, and medium enterprises (MSMEs) play a vital role in the balanced growth and equitable development of the Indian economy (Chatnani, 2018). The MSME sector in India is widely acknowledged as a major contributor to the country's economic progress. It is regarded to be the backbone of the Indian economy. Roughly 20% of India's MSME are located in rural areas, and the sector continues to employ nearly 40% of the country's workforce (Sudan, 2005). The Report of the Working Group on Micro, Small and Medium Enterprises (MSMEs) growth for 12th 5 year Plan (2012–17), accounts for 45 percent of the country's manufacturing production and 40 percent of its overall exports. According to the Ministry of MSME's (2017) report, MSMEs accounted for 30.74 percent of GDP in 2014–15. According to current economic forecasts or surveys, India's GDP would develop at a rate of 7% per year, making it a \$5 trillion economy by 2025 (Sudan, 2005). The MSME sector has evolved as a critical component of India's economy, contributing significantly to job creation, innovation, exports, and inclusive growth. A large portion of India's businesses are

small, unstructured, and work in the unorganized sector (Singh, 2021). The role of the sector is growing rapidly and has become a thrust area for future growth for rural and urban development and its excitement has a lot of policy implications (Pachouri Sharma, 2016). Because of the importance of the sector and its immense contribution to the growth of the country, understanding various problems faced by this sector becomes utmost important. One problem we focus in this article is the problem of delayed payment faced by the Indian MSME sector from its corporate customers. Many laws and measures have been put in place by the government to aid in resolving this issue because it is one of the most important and frequently encountered issues. The issue of delayed payments still persists despite the efforts made by the Indian government.

1.2 Problem Of Delayed Payments

Firms in the MSME sector are key providers of products and services to large corporations, but they face liquidity problems due to the large buyers' delayed payments of receivables (Chatnani, 2018). The MSMED Act of 2006 introduces the concept of buyer liability for late payments and the imposition of interest at a compound rate three times the RBI's bank rate. However, there is a significant gap between prescription and practice, as evidenced by reports indicating that central public sector firms, many of which are Navaratna Companies, have failed to pay dues totaling hundreds of crores (Singh, 2010). When a payment is made later than the agreed-upon time, it is called a payment delay. This definition appears sensible, as the concept of 'delay' only comes into play when a deadline is missed (Wuni, Bofo, & Agyei-Kumi, 2017). Payment delays are also described as the failure of the employer to pay the contractor within the time range specified in the contractual agreement (Judi and Rashid, 2010). Delays in payments can be caused by a variety of

circumstances. Employers' 'cannot' or 'would not' pay attitude is seen to be the main reason for late payments (Samaraweera, Perera & Dewagoda, 2019). The government has taken a number of steps to develop this industry. The MSMED Act was signed into law on October 2, 2006. MSMEs in India have fared well over the years from 1997-98 to 2014-15, according to performance evaluations conducted before and after the enactment of the MSMED Act, 2006 (Sathish & Rajamohan, 2018). The problem remains because customers are typically hesitant to pay on time, and sellers are hesitant to press purchasers for payment because they are afraid that their future orders may be refused (Vishwanath, 2020). Large-scale buyers' delays in settling dues/paying bills to Small scale industry (SSI) units had a negative impact on the recycling of money and the commercial operations of SSI units (Kamesam, 2003). A study by Peel & Wilson, 1996 stated that firms can utilize trade credit practices to avoid rather than fix late payment problems. Late payment of trade debts is frequently linked to the relative power positions of suppliers and customers (especially where the customer has a monopolistic or oligopolistic position), market competitiveness, disruption caused by changes in payment technologies, and customer concentration (Paul and Wilson, 2006). Suppliers may fear losing sales if they charge statutory interest more than late payment (Wilson, 2008). The manipulation of trade credit in organizations, as well as the passive function it is assigned, is one of the key culprits in late payment (Wetherhill & Howorth, 2000). The problem of delayed payments remains because customers are typically hesitant to pay on time, and sellers are hesitant to press purchasers for payment because they are afraid that their future orders may be refused.

1.3 MSMED ACT 2006 (The Micro, Small and Medium Enterprises Development Act, 2006|Legislative Department | Ministry of Law and Justice | GoI)

MSMED ACT 2006 is a law to facilitate the growth and development of micro, small, and medium-sized businesses, increase their competitiveness, and address issues related to or incidental to those developments. There are a total of six chapters in this law addressing various problems faced by the MSME sector. Chapter five of the act from articles 15 to 25 talks about the delayed payments to the MSME sector.

2. Research Questions

Why are MSMEs still facing the problem of delayed payments despite laws in place?

How are MSMEs responding to this problem?

3. Data and Methodology

In this paper, a thorough qualitative study was done where 25 entrepreneurs owning the industries in the MSME sector were interviewed. The entrepreneurs owned various different types of industries and the details of them were obtained from the IIMK Entrepreneurship Incubator. The industries varied from software, organic fertilizers, food, textile, parts manufacturing, communication, digital apps etc. These industries are supplying various products to their corporate customers and are facing the problem of payment delays from them. The interviews were conducted on zoom platform and on telephone and all the interviews were recorded. The

recordings are then transcribed to text and analyzed manually. The data collection and analysis is inspired from Gioia methodology. The Gioia methodology for qualitative research presents a methodical way of working with interviews as the main source of data. The methodology has been constructed as a means of approaching inductive, qualitative research, following the tradition of grounded theory (Gioia & Chittipeddi 1991; Gioia et al 2013). The interviews were analyzed and coded manually as it brings out more clarity to the researcher. Throughout the research process, memos were written to clearly analyze all the interviews, connect the codes and interpret what the entrepreneurs were trying to portray. Here, the data collection and the analyzing of the data went simultaneously. Coding was done after every interview session and the ideas which were struck or to comprehensively understand what the entrepreneur was telling was recorded in the memo so that no information is lost in the process. By analyzing the data, it made sense to understand it through the lens of RDT and eventually we have arrived at a conceptual framework which explains about the various tactics used by the corporate customers to delay the payments and how the MSME suppliers respond to it .

Table 1: Gioia Framework

Voice of the entrepreneurs	Second order dimension	Aggregate theme
We have faced and are still facing the problem of	General statement	Tactics

<p>delayed payments from our customers.</p>		
<p>Our reputation depends upon the type of customers you take. For example, if we have very big companies as our customers, it affects our brand value.</p>	<p>Bad reputation</p>	<p>Strategic Responses</p>
<p>They use guilt as a manipulation tactic. One of our customers whom I cannot name, uh, has lost a lot in this business. So, he simply declined that payment.</p>	<p>Guilt</p>	<p>Consequences</p>
<p>We need to compromise a lot in our relationship with the powerful buyers, especially with the payments.</p>	<p>compromise</p>	

<p>Even though we have no identity. We will be supplying under their name</p>	<p>Lack of identity</p>	
<p>Because our R&D department is highly skilled and their skillset match with the requirements of the corporations, they were offered jobs.</p>	<p>Poaching</p>	
<p>On maintaining good terms with our customers, our relationship will be long sustained and we also get bulk orders from our customers themselves.</p>	<p>Big volume business</p>	
<p>We are known from our corporate customers. If</p>	<p>Bad reputation</p>	

<p>we end a relationship with them, there are high chances we gain a bad reputation in the market.</p>		
<p>Not only one kind of product, if there is trust and commitment from both the sides, our business volume will increase and the corporations also will get highly benefited from us regarding quality and it saves resources for both the parties.</p>	<p>Big volume business</p>	

4. Theoretical Lens: Resource Dependence Theory (RDT)

Resource Dependence Theory (RDT) has become one of the most influential theories in organizational theory and strategic management. RDT recognises the impact of external influences on organizational behavior and managers can take steps to reduce environmental uncertainty and

reliance, although being bound by their context (Ulrich & Barney, 1984). Most organizations face multiple and frequently contradictory demands from a range of external actors, according to resource dependence theory. Although resource dependency theory emphasizes the task environment, it has also addressed the social environment of organizations (Pfeffer & Salancik, 1978) and the impact of state pressures on organizations (Pfeffer 1972; Salancik, 1979). Firms do not simply respond to external limitations and control through compliance with environmental demands, according to the resource dependence perspective. Rather, a range of methods could be implemented to alter the situation confronting the company in order to reduce the need for compliance (Pfeffer, 1982). Resource dependency theory focuses on a firm's need to access resources from other actors in the environment and describes how resource scarcities force organizations to pursue new innovations that use alternative resources (Sherer and Lee, 2002). Resource dependency theory focuses on the firm's ability to develop ties to access resources, which is consistent with the resource-based view of firms as bundles of distinctive resources that lead to competitive advantage (Van Witteloostuijn and Boone, 2006). From a resource-based perspective, sustainable competitive advantage is the ultimate outcome of management choices. Selection and deployment of resources, strategic industry factors and factor market imperfections. Hence the theory assumes that the resource environments drive firm conduct and outcomes (Oliver 1997).

5. Development Of The Conceptual Framework

With the help of data collected from the interviews from the entrepreneurs and using RDT as the theoretical lens; the following conceptual framework is made. The table focuses on the tactics used by the powerful corporate buyers towards their MSME suppliers and the strategic responses of the MSMEs towards the tactics applied by its customers. It is understood that for every kind of

response made by the MSME suppliers, there is some kind of consequence. Hence in the framework, two types of consequences are proposed. The first is the obvious and direct consequences called as intended consequences and for every decision made, there are also unintended consequences. These unintended consequences are those which are not expected or foreseen. The tactics applied by the buyer are broadly classified into two; coercive tactics and non-coercive tactics. Coercive tactics usually have negative outcomes and are considered to be unethical. On the other hand, non-coercive tactics are ethical and tend to have positive responses when they are applied. Looking at the coercive tactics applied by the powerful corporations, upon reviewing the literature and using the information from the interviews, it is seen that various manipulation tactics like political tactics, pressure tactics, guilt and poaching are applied on their weak MSME suppliers.

5.1 Examples Of Coercive Tactics

Few Criminal companies can proactively control the external environment by utilizing various resource kinds and establishing various types of interactions with various types of actors. Regardless of the techniques used, the main tactic of political action is highlighted (Consiglio, S., 2015). Criminal enterprises can proactively control the external environment by utilizing various resource kinds and establishing various forms of interactions with various parties."The organization strives to build for itself a better environment for its interests through political procedures," and "organizations may utilize political measures to affect the situation of the external economic environment." Firms actively endeavor to "construct" their environment in this way by attempting to shape government policies that result in a more advantageous environment. "Because

businesses are reliant on the government, they will engage in corporate political action," has become virtually a cliché (Pfeffer, J., & Salancik, G. R., 1978). Criminal enterprises can proactively control the external environment by utilizing various resource kinds and establishing various forms of interactions with various parties. Firms that rely substantially on the government are more inclined to engage in political activities, according to research. Managers are also more favorable toward political engagement as their reliance on regulatory agencies grows (the agency controls more of the firm's financial resources) (Birnbaum, P. H., 1985). Unethical practices such as threats and intimidation of many kinds are used on the weak suppliers in order for the corporations to achieve their own personal goals and profits (Oliveira, N., & Lumineau, F. (2019). In an interview conducted with Mr A, who is the owner of the valves manufacturing small enterprise, who continuously faces the problem of delayed payments from their customers stated that, "Our customers sometimes claim that they are running in losses and use guilt to escape from the payments". Another person who owns a testing equipment manufacturing small industry claimed that "during pandemic we faced more delayed payment problems as our customers always used covid and lack of businesses as a guilt to not pay us". The most interesting and new point is discovered by interviewing two of the IT service providers in a small industry. A person who owns an IT service industry dealing with large corporations as their customers said that "Our employees who work in an R&D department and testing department have got employment offers from our customers".

5.2 Strategic Responses By MSMEs To Coercive Tactics

To the various types of coercive tactics applied by the customers, there are certain types of strategic responses by the supplier MSMEs. Compromise's goal is to find a short and mutually accepted solution that partially satisfies everyone in the hopes of reaping future mutual benefits from prolonging the partnership. In a buyer-supplier relationship, the weak actor's decision to compromise is influenced by how helpless it feels. Simply accepting the connection's power asymmetry is not an option for the weak player (Habib, F., Bastl, M., & Pilbeam, C., 2015). It is said that the turnaround strategy most often referred to as entrepreneurial retrenchment, i.e., the aggressive pursuit of cost and asset reduction. In order to gain financial stability which is lost due to delayed payments by the customers, retrenchment is employed. It suggests that when confronted with a turnaround situation, managers of successful small-market-share enterprises must be able to promptly discover and remediate underperforming assets or in order to hold on to a relationship with a big customer, other activities would be stopped (Robbins, D. K., & Pearce II, J. A., 1993). In an interview, the owner of the valve manufacturing industry said that “We give priority to the big customer and because of that we had to halt our other orders”. There are various studies that capture multiple dimensions of conflict focus on the coexistence of emotional conflict and task conflict (J. Li & Hambrick, 2005), disagreements between manufacturers and dealers (Lusch, 1976), and structural and operating conflicts (Molnar & Rogers, 1979). Avoidance is defined as an organization's attempt to avoid having to adhere to the expectations by concealing their nonconformity and buffering themselves. The small organizations tend to escape from the corporate pressure which is exerted on them (Oliver, C., 1991).

5.3 Consequences To Coercive Tactics: Intended And Unintended

For every kind of response by the MSME to the tactics of the powerful corporate buyers, there are intended and unintended consequences. To begin with, many companies' relationships have a significant impact on their financial performance, and relationship management is critical in this situation. Second, firms cannot, in the end, govern and decide the growth of their numerous partnerships unilaterally. They are, nevertheless, a part of relationships and bigger networks, which has an impact on both their results and potential. As a result, if they are to manage relationships successfully, they must be aware of these interdependencies. When there are conflicts and friction in the buyer-seller relationship, ultimately both parties' goals and objectives will be disrupted (Freeman, S., 2001). A weaker actor breaks the linkages (trade of goods, personal relationships, contracts, bonds of trust, and commitment) with its powerful counterpart by departing a partnership. It represents the ultimate and most destructive response to power imbalance in a buyer-supplier relationship where the focus is towards changing the partner instead of improving the existing relationship (Habib, F., Bastl, M., & Pilbeam, C., 2015). There are also few unintended consequences which usually are not foreseen. In interviews with entrepreneurs, they stated that, “When we exit a relationship with a big corporate customer, maximum others also retract their contracts and others would not like to have business with us”. Other entrepreneurs stated that, “We are identified by our large customers. If we are no longer in a relationship with them, our future existence is difficult. The mechanics of how buyers and suppliers are able to co-operate and innovate and bring better products to the market in a competitive environment is important. When there is pressure from the customer or when they are no longer in the relationship with the big customer, MSMEs tend to continuously innovate themselves in order to increase their profitability and to sustain in the market. Innovation and digital adaptation for the payment system is adopted

by the MSMEs to reduce the problem of delayed payments from its customers and for its long term survival (Turk, J. D., & Usenik, H., 2000).

5.4 Examples Of Non-Coercive Tactics

Rational persuasion uses explanations, logical arguments, and factual evidence to demonstrate that a request is feasible and relevant to achieving task objectives. It is used as an influence tactic by the corporate customers against MSME suppliers (Massey, G. R., 2011). Cooperation between the partners (with similar aims and objectives as one of the essential qualities), open lines of communication, professional respect, and concern for the other's profitability are all dominant elements (McQuiston, 2001). It is proposed that a plethora of conversations occur across any organization prior to any decisions being made, and that these negotiations continue while those decisions are implemented to fulfill the organization's goals. The supply chain process is a perfect example of this. Negotiations play an important part in developing and maintaining the buyer–seller relationship, in addition to settling contract terms (Rogers, H., & Fells, R., 2017).

5.5 Strategic Responses By MSMEs To Non-Coercive Tactics

Supplier satisfaction is characterized as a sense of equality in the partnership, regardless of the power imbalance. Compliance, on the other hand, is described as intentional submission to demands or requirements. Power has been found to have a considerable impact on factors crucial to a buyer-supplier relationship, such as cooperation, commitment, trust, compliance, conflict, and dispute resolution (Brown et al., 1995, Maloni and Benton, 2000).Regular interaction with

counterparts, as well as "being upfront, with no secrets," create opportunities for trust to build. Everyone's expectations must be communicated. There should be no misrepresentations of skills or costs. It's also important to describe where the journey is headed and what opportunities exist. Fairness is defined as both parties benefiting from the partnership, which results in mutual commitment. In this light, trust is a component of personal integrity (Rogers, H., & Fells, R., 2017).

5.6 Consequences To Non-Coercive Tactics- Intended And Unintended

Fairness can lead to partner commitment through its association with relationship quality, and can serve as a precondition for improving operational efficiency in manufacturing or service processes (Cox et al., 2001) and achieving cooperation goals such as sales growth or increased customer value (Anderson and Weitz, 1992, Liu et al., 2012, Luo, 2009, Zaefarian et al., 2016). Defining the rules of the contract is critical in building trust and mutual commitment". and, similarly, 'contracts are the backbone of defining the business relationship with the supplier. The more detailed the contract, the better the relationship will be. It also ensures long term relationships and the satisfaction from both the parties ensure guaranteed business (Shahzad, K., Ali, T., Takala, J., Helo, P., & Zaefarian, G., 2018). It is mentioned that in few scenarios, the corporate customers recommend their suppliers to others which also gives mileage to the supplier's business (Rogers, H., & Fells, R., 2017). In the interviews with the MSME suppliers, it is claimed that they do not have any kind of identity for themselves. A craft paper manufacturing industry owner claimed that " we have no identity. We will be supplying under their name". Every entrepreneur from whom the interviews had been conducted claimed that, with the big corporations as the customers, there is an opportunity for the big volume business with more orders.

Fig 2: Conceptual Framework:

Classification of tactics	Examples of the tactics applied by the powerful corporates on weak MSMEs	Strategic responses by weak MSME suppliers towards its powerful buyers	Intended Consequences of the responses by MSMEs	Unintended Consequences
Coercive tactics ^{[1],[5]}	<ul style="list-style-type: none"> Political tactics (very less; extreme situations)^{[4],[7]} Pressure (threats and intimidation)^{[2],[4]} Guilt tripping #1#2 Poaching (skill set matches)#3#6 	<ul style="list-style-type: none"> Compromise^{[1],[6]} Retrenchment^[11] Conflict^[2] Avoidance^[6] 	<ul style="list-style-type: none"> Unsatisfactory relationship leading to the disruption of both the organization's goals and objectives^{[8],[9]} Exit^[1] 	<ul style="list-style-type: none"> Risk to sustain further#4#5 Innovation and digital adaptation^{[2],[9],[10]} Draining of resources^[7] Bad reputation in the market #4
Non-coercive tactics ^{[1],[3],[5]}	<ul style="list-style-type: none"> Rational persuasion^[3] Favorable negotiation^[6] 	<ul style="list-style-type: none"> Compliance^[5] Trust and reliability^{[5],[9]} 	<ul style="list-style-type: none"> Long-term relationship^{[5],[6]} Guaranteed business^[9] 	<ul style="list-style-type: none"> Referrals and mileage for the business^[9] Might not be identity for small suppliers #4#5 Possibility of Big volume business (#1- #6)

6. Conclusion

It is an abductive study. The delayed payment problem faced by MSME suppliers is understood through the Resource Dependence Theory (RDT). The application of this theory in this context is new and a further understanding of RDT has been developed through this study. It is a work in progress paper and it has implications for both MSMEs and corporations.

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