CHAPTER I

INTRODUCTION

Industrial development in India started in the late 19th century. Up to the mid 20th century, business in India was of the nature of family enterprise. Only in the mid 20th century, i.e. sometime after independence, the Indian middle class started availing of technical education. However, for the first few years these technically educated people had to work only as employees in other businesses due to a lack of business background in the family.

This class of young professionals was typically technically qualified, came from the non-business background, had all round managerial experience and economically were not too well off to bear the vagaries of a business cycle. A general improvement in the economic strata of the middle class due to smaller families, urbanisation and better education imparted them with some financial stability and ambitions. The typical middle class woman was also more educated, aware and prepared to work outside her home.

This changing structure of the middle class gave birth to a new class of entrepreneurs. These were technocrat professionals, who wanted to use their experience in the years of job, for their own sake, and turned into entrepreneurs.
But then there were some inherent problems in this kind of entrepreneurship. These entrepreneurs had poor financial support to see them through the ups and downs of the business. Though they were technically confident, they very often lacked the marketing expertise and the financial ability to manage a business. In the initial stages, a small scale entrepreneur would not be able to employ professionals for every strategic specialisation requirement of his industry. Their bias towards technology and quality led very often to neglect aspects like manpower management, competitive marketing etc. The small scale structure dissuaded the advantages of scale that are required for competitiveness.

Lack of sufficient financial support from an existing family business left them with dire problems in times of financial necessities. When they looked to the financial institutions for help at such times, the experience was that it either did not come timely or the institutions acted like any other moneylender.

Since this entrepreneurship was bred in the middle classes, age was a deciding factor for a mid-career change. There were two aspects here:
1) responsibilities towards the family, especially in the middle age, and
2) financial and career capability to bear a risk.

Spearman’s coefficient of correlation attempted to link age with entrepreneurship. (*1). Though this coefficient indicated that age of an

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entrepreneur did not influence the reasons for opting entrepreneurship, the truth is that age alone is the single largest factor in risking for a change in career. However, several other studies as well as the middle class attitudes indicate that it is rather difficult to make mid-career changes.

**How is an entrepreneur born?**

An introspection into the basic tenets of entrepreneurship reveal that the decision to start an enterprise is based on two basic questions:

a) Am I an entrepreneur? Do I have the abilities, the attitudes, the motivation?

b) Are the potential rewards commensurate with the risks?

To answer the first question, one can check whether he fits into the entrepreneurial personality that is outlined by a lot many researchers who have attempted to define the entrepreneurial personality. According to Hrishikes Bhattacharya, a banker, tax consultant and faculty at Indian Institute of Management, Calcutta, in his research conducted in India and abroad during his banking career, verified certain characteristics of an entrepreneur.

1) An entrepreneur acts out of desire and not out of necessity i.e he does not take to entrepreneurship on event of unemployment.

2) He is a long term thinker and doer.

3) He is active professionally but careless in personal behaviour.

4) He can visualise an opportunity.

5) He has a tendency to approach the top man in any organisation.

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6) He has a tendency to handle multiple jobs at a time.
7) He acts and learns. It may cost him to learn but he has a tendency to rectify.
8) He may have the requisite educational and technical qualifications but may
   not have a brilliant academic career.
9) He is hopeful about the future.

A major problem is that entrepreneurs by their very nature lack managerial
ability by themselves. This is all the more applicable to technologist
entrepreneurs because they are more manufacturing or production oriented. It
has thus been proved by research conducted by Hrishikes Bhattacharya that the
technologist entrepreneurs perform better in partnership with a non-technical
partner. (*2)

A large number of such entrepreneurs start small scale industries. Two
important encouraging factors in starting their own small enterprises are support
of the Government and directives for support to the financial institutions.
According to bankers broadly on the basis of their banking experience, the
various factors relevant to the appraisal of the small scale units can be divided
into four main categories:

1. Man- on the basis of his character, competence to repay loans, capital or
   owner’s stake in the project.
2. Material or the product and its merits and demerits.
3. Market- whether any arrangements are existent initially itself.

*2) Hrishikes Bhattacharya - Bank Lending: Principles, theory and practice- (Naya
Prakash, 1990), P. 12,13,14.
However, small scale industries are characterised by the following features:

a. Weak capital base- small entrepreneurs have very limited resources and have an inability to raise funds. Commercial banks usually insist on the main promoter's margin upto 25%, which is also difficult for the small industrialists.

b. Insufficient or no collateral- involving greater amount of risk.

c. Improper financial records- these become major hurdles in bank financing to small industries. Small industrialists are often not able to furnish basic information like capital employed, inventories, borrowings investments in fixed assets etc.

d. Lack of marketing arrangements- due to non-maintenance of quality standards, sometimes marketing becomes the biggest hurdle for small scale entrepreneurs

e. One man show- the main promoter or the entrepreneur is the all in one man. An occurrence of some accident or a natural calamity in his case could change the fate of the enterprise. (*3)

It is important to enumerate certain characteristics that define the entrepreneurial personality because they chalk out the different aspects in an entrepreneur. To promote small scale entrepreneurship, the Government at the State level as well as at the Centre, offered certain schemes for these entrepreneurs. All these schemes attempted to make funds easily available to the small entrepreneurs.

*3 Ibid. P.36.
Some of the schemes were in the form of tax concessions, rebates whereas some were actual financial subsidies offered. The schemes operated by the State Government depended largely on the respective state’s ability and outlook to industrialisation.

**Incentives offered to SSI units in backward areas**:

1. An outright subsidy of 15% on the fixed capital investment up to a maximum limit of Rs. 15 lakhs, admissible to new units.

2. Allotment of sheds in industrial areas / estates on easy terms.

3. Interest free loans in lieu of sales tax paid / payable up to 7 years, provided this loan amount does not exceed 8% of the capital investment in each year.

4. Loans and advances for purchase of land and buildings, purchase of machinery and equipment, and working capital.

5. The state financial corporations grant loans up to Rs. 30 lakhs for acquisition of fixed assets in case of limited companies and registered co-operatives, and up to Rs. 15 lakhs for others, at liberalised margins and lower rates of interest and longer period of repayment and moratorium.

6. The state industrial development corporation participates in equity in case of medium / large companies. State governments may also consider joint ventures in strategic areas of infrastructure.

7. Relief from taxation for SSI units for capital investment up to Rs. 1 lakh:
a) New units exempt from electricity duty for 7 years.
b) New units exempt from property tax for 5 years.
c) Octroi exemption up to 3 years from the date of registration.

8. Assistance in acquisition of controlled raw material supplies.
9. Access to infrastructure facilities like State Government owned testing labs, tool rooms etc. (*4)

All these subsidies and concessions are routed either through:

1. State Industrial Development Corporations (MIDC in Maharashtra), or
2. State Financial Corporations (MSFC in Maharashtra), or
3. Small Industries Service Institutes, or
4. Small Scale Industrial Development Corporations (MSSIDC in Maharashtra) or
5. State Bank of India (for working capital financing with lower rates of interest) or
6. Regional Development Corporations (WMDC - Western Maharashtra Development Corporation etc.) or
7. Specialised corporations like Mahila Audyogik Vikas Sanghatana for loans to women entrepreneurs, or
8. ICICI / IDBI for bills rediscounting and project financing to medium / large scale units, or Nabard for agricultural projects etc.

*4. Gopal Swaroop, Advances to small industries and small borrowers, (Sultan Chand & sons, New Delhi, 1991), P 36
These institutions offer loans to all small as well as medium scale entrepreneurs. When an entrepreneur submits a project proposal along with a loan application under the single window cell to any one of these above mentioned institutions, usually the concerned financial institution itself routes the entrepreneur to other institutions for those portions of the project financing which fall under the scope of other institutions.

The state of Maharashtra has divided the entire state area into zones, namely 'A' 'B' 'C' and 'D'. These are nomenclatured according to the population density of the town and its requirement for development. Incentives are offered to all areas on the basis of the zone it belongs to. The 'C' and 'D' zones are backward area districts. The Government of Maharashtra declares a package scheme of incentives every five years.

The 1993 package scheme of incentives which is valid during 1st October 1993 to 30th September 1998 has offered the following incentives:

1. Classification of A / B / C / D and D+ (a new category) of industrial areas on the basis of industrial development.
2. Incentives offered:
   a. Sales tax exemption / deferred / interest free unsecured loan for a period of 7 years.
   b. Refund on octroi / entry tax for 5 / 7 / 9 / 12 years in the B / C / D / D+ areas respectively.
c. Special capital incentive given as under - (*5)

<table>
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<tr>
<th>Area class</th>
<th>% of fixed capital Investment</th>
<th>Ceiling (Rs. lakhs)</th>
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<tbody>
<tr>
<td>B</td>
<td>15%</td>
<td>7</td>
</tr>
<tr>
<td>C</td>
<td>20%</td>
<td>10</td>
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<tr>
<td>D</td>
<td>25%</td>
<td>15</td>
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<tr>
<td>D+</td>
<td>30%</td>
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Scheme for technically or professionally qualified entrepreneurs

Seed capital assistance scheme to fund the gap in prescribed promoters' contribution. This scheme is operated through State Financial Corporations for small scale sector, and Industrial Development Corporations for the medium / large scale projects. This is a soft loan scheme where a nominal service charge of 1% p.a is levied for the first 5 years and thereafter interest at the rate of 10% is levied, subject to a maximum of Rs.15 lakhs.

Direct assistance is given to small scale industries through the State Financial Corporations or SIDBI, and the State Industrial Development Corporations. Refinance to them is available from IDBI. However direct assistance is given to medium and large scale sector industries through IDBI, ICICI or SICOM. Working capital loans are usually routed through the State Bank of India or any other nationalized bank, and refinanced by either one or a group of financial institutions (in case of consortium lending).

The term entrepreneurship may be properly applied to those who incubate new ideas, start enterprises based on these ideas and provide added value to the society based on their independent initiative. However, individuals who simply substitute income by leaving jobs to operate local stores or independent service businesses are described as small business persons. This distinction is subtle but important. The person who establishes a fast food franchise chain is called an entrepreneur, but the local restaurant owner is called a small business person. (*6)

Corporate entrepreneurship often referred to as intrapreneurship is concerned with innovations that lead to new divisions or subsidiary ventures in established, larger firms. The concept of entrepreneurship does not exclude managers in large organisations from being entrepreneurs if they combine resources in unusual ways to create innovative newproducts or services. However, because entrepreneurs take personal investment risks and corporate managers very rarely do so, intrapreneurship can only be a play on words. Corporate managers may commit time and energy and perhaps risk their careers, but their is little evidence of corporate managers risking personal investment capital to champion a corporate innovation.

Only giving incentives or subsidies are not enough motivation for the innovative entrepreneurs. Therefore a group of some successful entrepreneurs through the route of Chambers of Commerce instituted awards as an additional encouragement to upcoming entrepreneurs.

A person whose behavioural manifestation is close to achievement orientation has an urge —

- to excel the standards of performance against those set by others
- to excel one's own standard of performance against his past records
- to be innovative and creative with a sense of unique accomplishment
- involvement pursuing for a long term, towards achieving a goal.

Presenting awards came to be recognised as an acceptable mode of motivation. Subsequently the Government also instituted awards to encourage innovativeness amongst small entrepreneurs.

Entrepreneurship is believed to be risky and the common belief is that the entrepreneur is a risk taker. Though this may be true in the areas of high tech innovations, or futuristic application products, entrepreneurship is risky since the casualty rate is high and chances of success or even survival are low, in all other cases an entrepreneur is only taking calculated risks.

Innovation is a specific tool which an entrepreneur could use to overcome the risk factor. Innovation as very blandly put, is utilisation of an invention for commercial purposes. This invention may be in the form of a new product, a new way of making a product, a new market or even a new idea or a concept. It encompasses a spectrum of activities from the basic research to the commercial application including marketing. Success of an invention lies in the finesse of translation of that new knowledge into commercial product.
**Why do entrepreneurs innovate?**

As Carl Lagerfeld stated, there is no logic in innovation. But for "motivation seekers" the greatest satisfaction and the strongest motivation are derived from achievement, responsibility, growth, advance, work itself and earned recognition through it.

In India, the small entrepreneur is plagued with scarcity of funds. When he realises that competition is intense, he has to differentiate his product from the others. He thus tries to create a product which would create demand for specific clientele. However, this again leads to restriction and segmentation of the market. If the product has a short shelf life, the demand is continuous. But then, such products have other inherent problems such as storage, durability etc. If the product has a long shelf life, the demand for it arises in spurts. Once customer satisfaction is done with, new demand has to be created. The replacement market is always lesser than the new market.

Engineering innovations can lead to superior products, whereas technological innovations can lead to removing of bottlenecks or process flaws and shortcomings in the manufacturing process.

In case of a small enterprise, it is the financial necessity which usually prompts innovation.

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“Invention”, as defined by The World Book Dictionary (7) means ‘the act or process of making something new for the first time’ whereas “Innovation”, as defined by The World Book Dictionary means ‘a change made in the established way of doing things’. Thus change often comes as a result of innovation. In order to bring about consciously any desired change it is necessary to have some goals in mind. These may be identified as either aims (aim implies strategy) or objectives (objective implies tactics).

Bearing this in mind we can regard innovations as having three possible main attributes –

a) planned to occur
b) improvements in existing methods, or
c) are fundamental in nature.

In other words, all innovations are planned, systematic; non-repetitive and new in approach and design and are necessarily basic in nature, uncomplicated and the application of which shall lead to a major difference in the production or process of a product or service. In underdeveloped countries, import substitute products can be recognised as innovations, since here a large number of exogenous factors affect innovativeness.

Factors that affect and influence innovativeness:

1) Pre-dispositional factors - Internal forces or hereditary tendencies within individuals. Included in this category are personality factors like attitudes, beliefs, values and goals.

2) Personal factors - Schooling, standard of education, employment experience, and other such factors like flexibility etc. Research has shown that childhood grooming is a very important factor in development of entrepreneurship. Similarly, innovative attitudes are also developed in childhood bringing up.

3) Behavioural factors - Personal decision making process which arises from personal response to perceptions of various stimuli.

4) Situational factors - These are like size of the family, nature and number of dependants, standard of living, extent of income etc. or in other words, the social and family responsibilities on the man.

5) Intervening factors - These are not within the control of the individuals at all. They include aspects of rationality, variations in climatic conditions, geographical locations, policy changes by the government etc.

6) Outcome factors - These factors are also external in nature and determine the outcome. These include market demand, cyclical markets, etc.

An innovative entrepreneur keeps on innovating influenced by the above factors. The problems that such an entrepreneur faces, are quite peculiar in nature, including establishing the innovation as a marketable product.
The present research project studies innovative entrepreneurship in the light of all the above factors, with a particular emphasis on:

1. Whether the award winning product contributes in the financial growth of the enterprise, and
2. Whether such awards can really be a motivational factor for entrepreneurs to innovate.

The findings of the study could probably be used by:

1. The award giving authorities to review their procedures in relation to:
   a. The eligibility,
   b. The publicity of the award,
   c. The award money, etc.

2. The financial institutions to explore the possibility of a differential treatment to award winning entrepreneurs.