CHAPTER I

INTRODUCTION

1.1 INTRODUCTION

The development of an economy depends, to a great extent, upon the highly motivated people rightly termed as ‘entrepreneurs’ who are willing to take risks for achieving tangible growth. The high rate of growth and success of entrepreneurs in the developed economies is illustrative of this. A glimpse into the history of India shows that Indian enterprises and entrepreneurial zeal were curtailed by the colonial British empire. The mere destruction of the Indian handicrafts and village industries during the British rule pushed back the wheels of progress.

But the need to promote entrepreneurship for the country’s economic growth has attracted the attention of Indian planners in recent times. Though the country is committed to give equal opportunity for growth and for reducing regional imbalances, entrepreneurial growth has been limited to certain regions of the nation. In this chapter, an attempt has been made to present the development of entrepreneurship in India and, particularly in Thoothukudi District which is one of the districts of Tamil Nadu.
1.2 MEANINGS OF ‘ENTREPRENEUR’ AND ‘ENTREPRENEURSHIP’

The term ‘entrepreneur’ has been derived from the French word ‘entrepreneur’ which means ‘to undertake’. The term was initially used to indicate the persons engaged in military expedition. In the 17th century, the term was used to denote individuals engaged in civil engineering activities. The term was later used to identify cultivators. According to Quesnay, an entrepreneur is a rich farmer who makes his business profitable by using his intelligence and wealth. Cantillon *conceptualizes the term in a more advanced way. He regards an entrepreneur as the bearer of risk and uncertainty. He calls any person engaged in economic activity an entrepreneur. According to Marshall,† entrepreneurs are businessmen who undertake risks. Knight‡ restricts the use of the term to the carriers of risk and uncertainty.

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‡F.H. Knight, Risk Uncertainty and Profit” 8th impression, Houghton Miffin, New York, 1921.
An entrepreneur is a man who has the capacity for adjustment and the ability to innovate and make correct judgements about the future. Harbinson defines an entrepreneur as an economic man and a chief of a faction in the process of economic development. For Schumpeter, an entrepreneur is an innovator who tries out new products or new combinations in the process of economic development. He considers an entrepreneur an integral part of economic growth. Keynes treats him as a decision-maker. According to Keynes, the entrepreneur’s function is to fix the amount of employment at the level which is expected to maximise the excess of proceeds over the factor cost. Baumol confines the term to the manager who controls the entire business operations. According to Kilby Peter, an entrepreneur is a person who deals with finance, marketing, production and personnel management for making a business a success.


***Kilby Peter, *op. cit.*, 1971, pp .27-28
Generally, an entrepreneur is considered a functionary and the entrepreneurship is his function.

Hoselitz††† defines entrepreneurship as a function of managerial skill and leadership. For Harbinson‡‡‡, it means the process of constructing a business organisation. McChelland§§§ defines it as a function of high achievement. Leibenstein**** defines it as an input-completing and gap-filling function.

1.3 THEORIES OF ENTREPRENEURSHIP DEVELOPMENT

The issue of the growth of entrepreneurship has been widely discussed in the form of theories, and various factors have been identified by social scientists as responsible for the growth of entrepreneurship in a country.

Renowned economists like Walker, Schumpeter and Papanek have pointed out that economic reasons have been responsible for the growth of entrepreneurship. Strong economic incentives created during boom periods in the business cycle, concentration of foreign trade, conditions of scarcity and


‡‡‡F. Harbinson, op. cit., 1956 , pp. 364-368


import of machinery subsidised by an undervalued rate of exchange have been the reasons for the growth of entrepreneurship††††.

Sociologists and anthropologists like Weber, Cochran, Young and Kunkel have stressed that the factors like social values, environmental influence, cultural values and social structure have also been the major sources for the growth of entrepreneurship. A sociological theory of entrepreneurship development points out that the reactions of a subgroup which experiences low status in a larger society will lead to entrepreneurship if the group has better institutional resources than others in the society††††. The impact of religion on enterprising culture has been analysed by Weber§§§§. According to him, the spirit of capitalism creates the attitude for the acquisition of money and activities involved in it. According to him, ‘Protestant ethic’ provides one with the mental attitude which promotes the spirit of capitalism.

A behaviouristic theory has been developed to study the entrepreneurial growth in a country. According to it, entrepreneurial supply depends on four


structures a limitation, labour, opportunity and demand. In limitation structure, it is observed that society limits specific activities to the members of a particular subculture. In labour structure, the dependency of entrepreneurial growth on the supply of factory labour is pointed out. Opportunity structure stresses the importance of the availability of capital, management and technical skills and the opportunity to learn all activities associated with the effective planning and the successful operation of industrial enterprises. As the demand structure is economic, the theory presents the view that if the components of demand structure are motivated, the behaviour of the people will be shaped in an entrepreneurial way.

Eminent psychologists like McChelland, Winter, Christopher and Schumpeter have identified that certain personal characteristics have been responsible for a person to become an entrepreneur. A person with entrepreneurial potential can be developed into a successful functioning entrepreneur by motivating him and imparting certain managerial skills to him. Stated differently, motivation and training programmes have been suggested as the measures to develop successful entrepreneurship in a country. In another theory, the creative personality of an individual who


has the capacity to bring about technological changes has been considered a source of entrepreneurship development.††††

Shapero, Collino, Moore and Unwalla have stressed the importance of factors like personality, psycho-dynamic characteristics and socio-economic aspects to promote entrepreneurship in a country.

1.4 ROLE OF ENTREPRENEUR IN ECONOMIC DEVELOPMENT

At present, most of the developing economies are primary sector-dominated economies and India is no exception. Therefore, there arises a logical base for recognising the role of the industrial sector in the overall economic development of the country. The ultimate aim of all economic development is to bring about an improvement in the quality of life of the members of the society.§§§§ The role of the entrepreneur here is to produce an environment which is conducive to the optimum utilisation of the resources like money, man power or material.

In a fast-moving world, no firm - small or large - can survive, if it is not alert and responsive to technological changes. Hence, a speedy and faster economic development is possible only with the help of dynamic and alert


entrepreneurs. In India, “Small business firms produce two and a half times as many innovations as large firms, relative to the number of persons employed. Since the World War II, small business firms have been responsible for developing more than half of the new producers and service innovations.

In a country like India, state and private entrepreneurs exist side by side. The small-scale industrial sector and business are in the purview of private entrepreneurs. Hence, the need to promote entrepreneurship in the medium scale and small-scale industrial sectors becomes essential to hasten the rate of development.

The need for broad-based entrepreneurial class in India arises from the need to speed up the process of activating the factors of production, leading to a higher rate of economic growth, dispersal of economic activities, development of backward and tribal areas, creation of employment opportunities, improvement in the standard of living of the weaker sections of the society and involvement of all sections of the society in the process of growth.

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Only if a conducive environment is created, there is a possibility for new persons to venture into business. The entrepreneur works as a catalyst opening up new vistas, creating wealth, fostering development in other sectors of the economy.††††††

1.5 ENTREPRENEURSHIP IN INDIA

During the pre-independence era, India was a centre of bustling trade activity. The Indian industries excelled in crafts such as weaving, tanning, metalling even as early as the early Vedic period. Ancient Indian literature provides substantial evidence to the well-ordered industrial structure of the Indo-Aryan society and the existence of commercial and industrial organisations.

During the Mughal rule, there existed a regularised system of state-controlled industries. The government was in possession of factories (Karkhanas) in the principal cities. During the 16th and the early 17th centuries, there was an organised system of entrepreneurship and trade flourished in important cities like Varanasi, Allahabad, Ganga, Puri and Mirzapur which were situated on the banks of rivers. Exports of cotton, muslin, carpets and handicrafts were made possible through such commercial

centres. India during the 17th century was one of the industrial workshops of the world.

The decline and destruction of industries were due to the extravagant Mughals who never encouraged artisans nor gave commercial concessions to tradesmen. The British rule in India led to further destruction of indigenous and small-scale industries in India. The role of Indians was restricted to that of managing agents. In 1800, India was reduced to a raw material supplying region and Indian industries suffered a serious setback due to the industrial revolution in the western countries.

The beginning of modern industry can be traced to the middle of the 19th century. The British introduced the factory system in India and several factories were established in the first half of the 19th century. The pioneers of modern industrial sector were the entrepreneurs of western India who promoted industrial growth from around 1850. Following the World War I, a considerable emphasis was laid on the development of local and indigenous industry and industrial development was rapid and diverse in 1930s and 1940s.††††††

During 1955, the role of Parsis, Gujaratis and Marwadis in industrial growth led to the sidelining of British entrepreneurship. At the time of independence, the industrial scene in India witnessed the emergence of a few large industrial or managing agency houses and their gaining control over a major part of the Indian industry.

1.6 MICRO ENTERPRISES

Micro-enterprises play a substantial role in all economies which are currently undergoing a transition from traditional subsistence to a modern industrial economy, such as in many Asian and African countries. The micro-enterprise sector plays a significant role in reducing poverty and promoting the creation of new jobs as well as higher levels of employment.

Micro-enterprises represent the earliest stage of business development — a stage where the owner-founder is typically also the manager of the firm. At this stage, the management decisions of the founder or entrepreneur, his/her intentions about the business, and his background and aspirations are intrinsically linked with the success of the business itself.

Survival and growth are particular challenges for micro-enterprises, more so than for larger firms. Entrepreneurship plays a crucial role in the growth of any Society particularly in a fast developing country like India.
The entrepreneur is an important agent in our society who can be a catalyst of social and economic changes.

Micro enterprises make an important contribution to the economic output and employment in developing economies. While estimates vary greatly depending on definitions, recent work by the World Bank suggests that almost 30 per cent of employment in low-income countries is generated by the informal economy, while an additional 18 per cent is provided by (formal) small and medium enterprises. Together these two groups contribute 63 per cent of the GDP. Finance is the lifeblood of any enterprise irrespective of its size. Micro enterprises face many problems in raising finance, as the provider of finance may not find the return on investment interesting as compared to large enterprise, and also an investor is more skeptical about repayment.

Entrepreneurs compete in rapidly changing markets and must respond to the challenges of globalization, technological advance and other factors. Micro enterprise has limited resources at its disposal while competing with giant enterprises.

At the same time they have special pool of business where micro enterprise is more competitive. To be able to work out of poverty, to survive and to grow, entrepreneurs need access to a range of services. Broadly, these are categorized as (i) financial services and (ii) non-financial, or business development services (BDS), such as market information, management and vocational skills training and business advice.

Non-financial services are equally important to design, develop and market a product or services. Micro enterprises I have an edge over the large enterprises in various products; traditional knowledge and better control over business are a unique strength.

Ignoring substantial population suffering from poverty may be costly for any economy and it is not prudent not to utilize strengths vested in such poor lot. Socio-economic developments as well as macroeconomic and financial sector stability are important components in ensuring an enabling environment for continued growth of overall economy as a whole and the micro finance industry in specific. Supporting micro enterprise is therefore necessary policy – socially and economically.

1.7 THE DISTRICT INDUSTRIES CENTRE (DIC)*

The DIC is an institution at the district level that renders important services and facilities to the entrepreneurs in a district under one roof, so that they may set up small-scale and village industries. The services and facilities include economic investigation of the potential for development, identification of suitable schemes, the preparation of a feasibility report, arrangement for the supply of machinery, the provision of raw materials, quality control, research and entrepreneurial training. The main purpose of this programme has been to minimise the number of contact points that the entrepreneurs have to deal with for acquiring all facilities. Suitable powers have now been delegated by several departments of the state governments to the DIC so that an entrepreneur may get all the assistance he needs from a single agency. Efforts have also been made to cover each district in the country with a District Industries Centre.

1.7.1 Objectives of the District Industries Centre

The main objectives of the DIC are the following:

1. To promote rural industries.

2. To develop small, cottage and village industries and to generate employment opportunities particularly among the rural and backward areas.

* Records District Industries Centre (DIC), Thoothukudi district, Thoothukudi, 2012.
3. under one roof, which are required to start an industry, business or service unit.

4. To act as a nodal agency for providing support services to the village and small entrepreneurs.

5. To maintain proper linkage with the rural development blocks and developmental institutions which are involved in grass-root activities.

1.7.2 Activities of the District Industries Centre

1. To study the existing traditional and new industries, to survey potential raw materials and human resources, to identify schemes, to make market forecasts for different items and to prepare techno-economic feasibility reports.

2. To conduct training courses for entrepreneurs of small and tiny units in association with the Small Industries Service Institute

3. To ascertain the raw material requirements of various units, their sources and prices and to facilitate their bulk purchase and distribution to entrepreneurs.

4. To give particular attention to the development of khadi and village industries and other cottage industries in association with the State Khadi Board and to organise training programmes for rural artisans.
5. To maintain liaison with the lead bank and other financial institutions, appraise process applications, monitor the flow of industrial credit in the district and arrange for financial assistance to the entrepreneurs.

6. To arrange marketing outlets, maintain liaison with the government procurement agencies, provide market intelligence to the entrepreneurs, organise market surveys and market development programmes.

7. To assess the need for machinery and equipments of small-scale, tiny and village industries and to indicate the locations, where the required machinery and equipments for different plants may be available for the entrepreneurs, to maintain contact with research institutions and to arrange for the supply of machinery on a hire-purchase basis.

8. To provide immediate aid required by the entrepreneurs in respect of power supply and licences from the municipal and health Departments.

9. To assist the entrepreneurs in the allotment of workshed and sites required for establishment of industries in industrial estates.

10. To help in arranging hundred per cent loans to the educated unemployed belonging to scheduled castes, scheduled tribes and
socially or economically backward communities, for starting industries under special employment schemes.

11. To help in extending suitable technical training to women entrepreneurs for pursuing self-employment schemes.

12. To assist the entrepreneurs of small-scale units and rural artisans, in establishing industries, collectively through industrial co-operatives.

13. To expedite the issue of clearances and licenses to business units under a single-roof arrangement.

14. To calculate and distribute subsidies to the entrepreneurs provided by state governments under the schemes like state / special capital Subsidy, Low Tension Power Tariff Subsidy, Generator Subsidy, Sales Tax Waivers and Sales Tax Deferral schemes.

1.7.3 Organisational Structure of the DIC

The role of an organisation comprises the process of identifying and grouping the work to be performed. In order to achieve the stated objectives, there must be a clear delegation of both authority and responsibility. So, success goes with the existence of a sound organisational structure. An attempt has been made here to study the organisational structure of the DIC, the responsibilities of the functionaries of the DIC and their working.
As per the guidelines, each DIC was initially required to have one general manager and seven functional managers. The functional managers look after the following divisions:

1. Economic investigation
2. Machinery and equipment
3. Research, extension and training
4. Credit
5. Raw materials
6. Marketing and
7. Cottage industries

The general manager holds a key position and has been responsible for the overall co-ordination and development of industries in the district. The general manager of DIC has the rank a joint director in the Department of Industries and Commerce. He is responsible for the development of village industries also in the district. He is assigned the duty of supervising and reviewing the work of his subordinates, of attending district level co-ordination committee meetings and other meetings, and ensuring the implementation of action-plans drawn up for promoting and developing small-scale, village and cottage industries in the district.

He holds the post of chairman of the Task Force Committee of DIC, which is responsible for the selection of candidates for Prime Minister’s
Rozgar Yojana (PMRY) Scheme. He has to provide leadership to the team and hence he should be fully familiar with the process of industrialisation, administrative procedures and the techniques associated with them.

The power of sanctioning state capital and special capital subsidy is vested in the hands of the general manager. He is also responsible for issuing eligibility-certificate to an industrialist to avail of low tension power tariff subsidy, and to recommend to commercial taxes departments for the waiver and deferral of sales tax for the eligible industrial units.

The Manager of Economic Investigation is assigned the task of investigating the potentialities of the district for industrial development. He has to arrange for structural facilities to existing as well as potential entrepreneurs.

The Manager of Machinery and Equipment assesses the requirements of machinery and equipment needed by various small-scale, tiny and village industries. His duty is to ascertain the sources of supply of machinery and equipment. He has the list of suppliers of machinery and equipment and the price-lists and keeps the entrepreneurs advised about these. He also helps in placing orders. He assesses the need for simple machines in rural industries. He maintains regular contacts with the National Small Industries Corporation
(NSIC) and guides the entrepreneurs who have registration certificates for the purchase of machinery and equipment.

The Manager for Research, Extension and Training has to identify the problems of entrepreneurs with regard to the quality of raw materials, production methods and processes. He is expected to be helpful in guiding the entrepreneurs in the selection of product-lines for manufacturing. He has been given the responsibility of conducting training courses in production for the entrepreneurs engaged in the small and tiny units. He is responsible for the conduct of training programmes under PMRY scheme and for women entrepreneurship development programmes.

The presence of a separate manager for credit in the DIC is a boon to the small industrial units and to the artisans who approach the DIC for guidance and assistance. The foremost task of the Manager for Credit is to prepare the annual credit plans for the industrial development of the district. While preparing this, he considers the action plan for the district prepared by the DIC. Identification and rehabilitation of sick industrial units is another task of the Manager for Credit. With the help of his technical staff, he has to diagnose the sickness. He has been given the work of sanctioning and disbursing seed money/margin money assistances to the beneficiaries. He has to help the applicants in filling up the applications to various financial
institutions, in particular, scheduled commercial banks. He is a Member-Secretary of the District Task Force Committee, which is responsible for the implementation of PMRY schemes in the district. In the absence of the general manager of the DIC, he attends the meetings arranged by commercial banks and financial institutions like SIDCO, TIIC and NABARD.

The Manager for Raw Materials has been assigned the task of locating the sources of different raw materials and their current market prices. He may help the industrial units in arranging for bulk purchases of raw materials on a co-operative basis.

The Manager for Marketing is given the responsibility of organising market surveys and market development programmes. He also organises marketing outlets. He has to work as a liaison officer with the government procurement agencies. To encourage and assist the small-scale industries, the central government has reserved the products of small-scale industries to be purchased by the central and state governments on a priority basis.

The Manager for Cottage Industry has been designated specifically to look after the needs of cottage industries. He has to look after the handlooms, handicrafts, sericulture, khadi and village industries. The organisation of
training programmes to the rural artisans is also his allotted work. He is in liaison with State Khadi Board and other government agencies.

1.7.4 Restructuring of the District Industries Centre

The Industrial Policy Statement of July 23, 1980, announced by the central government aimed at making certain effective alternatives to the present programme of the DICs. For this purpose, an evaluation study was conducted. It was decided to study the effectiveness of the present programmes of the DIC, one each from northern, eastern, southern, central and western regions. A study team was constituted, with the representatives from the Ministry of Industry, the Ministry of Commerce, the Reserve Bank of India, the Development Commissioner of Small-Scale Industries and the Ministry of Rural Industries. The state governments were requested to give their opinions, views and their suggestions in respect of promotional and administrative aspects of the DIC programmes. Based upon the findings of the study team and the recommendations of the state governments, the central government has made several changes to ensure efficient and effective functioning of the programmes. The staffing pattern has been made more flexible. Under the restructured staffing pattern, each DIC has one general manager, four functional managers and three project managers in disciplines that are relevant to the requirements of a district.
1.7.5 Project Managers

According to the Guidelines (Revised) issued by the Central Government in 1983, the state governments are expected to appoint a maximum of three project managers. They are assigned the task of providing technical assistance to the project activity needed by the entrepreneurs in the district. They are required to render services to the new and existing entrepreneurs. Qualified and trained project managers in the DIC are a great boon to the small entrepreneurs.

The 40th Public Accounts Committee Report suggested that the state governments should take immediate steps to appoint project managers. The then Union Minister J. Vengal Rao was of the opinion that the project managers should be the technical officers to provide necessary technical inputs to the entrepreneurs, because technical assistance cannot be provided effectively in the absence of project managers in the DIC.

1.7.6 Delegation of Powers

In order to strengthen the DICs and also to facilitate effective functioning, several steps have been taken recently. These include the delegation of powers to the General Manager of the DICs. By and large, the State Governments have taken steps to delegate to the DIC most of the
administrative and functional powers of the Director of Industries as well as those under the Import Trade Control Policy. In addition, powers of the other departments have also been delegated either to the DIC or to the Chairman of the District Advisory Committee. In Orissa, almost all the powers of the Industries Directorate have been delegated to the General Manager of DIC.

1.7.7 The DIC as a Co-ordinating Agency

The DIC, which has been created essentially as a co-ordinating agency, seeks guidance from the other existing related agencies and uses the expertise so gained for the benefit of small-scale units and cottage industries. This is done by maintaining close contact with the development blocks entrusted with the task of Integrated Rural Development.

All the activities the relating to handlooms, handicraft, coir boards, silk boards and Khadi and Village Industries Commission have been integrated and merged with those of the DICs. Figure 1.1 shows the co-ordinating agencies of the DIC.
1.7.8 Monitoring of the DIC

The activities of the District Industries Centres are subject to monitoring at the district and state levels.

1.7.9 District Advisory Committee

As the head of the District Advisory Committee, the collector of the district provides effective co-ordination between and among the DIC and the state government departments, non-official agencies and local bodies in the task of assisting entrepreneurs. This committee meets once a month or once in two months. The committee approves the action plan prepared by the DIC and reviews the implementation of various schemes under the DIC.
programmes, the progress in the establishment of the small and village industries and artisan development programmes. It also periodically suggests measures for improving performance are considered. The view points of banks and all concerned for the successful implementation of the scheme is given priority. In particular, the recovery of loan amounts from the entrepreneurs.

1.7.10 State Level Committee

To supervise and monitor the work of the DIC, the government has constituted a state level co-ordination committee with the Minister of Industries as its Chairman and the Chief Secretary, the Director of Industries, the Secretary for Rural Development, the Secretary for Agriculture, the Director of SISI, the Secretaries in-charge of Agriculture, the Commissioner in-charge of Panchayat Raj Institutions, as members.

The State Level Co-ordination Committee meets once in six months to review the activities of the DIC and report to the Government of India on their progress.
1.8 STATEMENT OF THE PROBLEM

A significant feature of the Indian economy since independence is the rapid growth of entrepreneurship in the small-scale industrial sector. There is unlimited scope for the growth of entrepreneurship in this area and with a little initiative and assistance, the under-utilized and underemployed agricultural workers can find permanent employment and earn a comparatively larger and stable income. Therefore, the researcher has undertaken a study of the growth of entrepreneurship in the micro enterprises units for research. Many micro enterprises over the years have been successful and they have expanded into large industrial units. This spectacular growth is mainly due to strong and motivated the entrepreneurship. So an indepth study relating to the entrepreneurship provides the basis for understanding the concept of entrepreneurship. Hence the present study is an attempt to analyse entrepreneurs through micro enterprises by DIC assistance in Thoothukudi district.
1.9 OBJECTIVES OF THE STUDY

The basic objective of the study is to analyze and understand micro enterprises. For the purpose, the study focuses on the following specified objectives:

i) To discuss the socio-economic profile of the selected sample micro entrepreneurs

ii) To identify and analyze the important personality traits variables.

iii) To analyze the enterprise involvement among the micro entrepreneurs.

iv) To examine the factors which identify good and poor performers among micro entrepreneurs.

v) To analyze the various constraints faced by the micro entrepreneurs in their business.
1.10 HYPOTHESES

The study aims at testing the following hypotheses in line with objectives mentioned above:

1. There is no association between socio-economic variables and loans from banks.
2. There is no association between business variables and loans from banks.
3. There is no association between personality traits and bank loans, awareness of Government schemes, occupational status, years of experience, investment turnover and profit.

1.11 LIMITATIONS

The study has from certain limitations. One of the important limitations is that though there are a large numbers of entrepreneurial ventures implemented through DIC, the present study is confined only to the micro entrepreneurs registered in District Industries Centre, in Thoothukudi district. Thus the findings can be generalized only to a certain extent. The omission is mainly due to the non-availability of specific secondary data.
1.12 CHAPTER SCHEME

The present study "An Economic study on Micro Entrepreneurs in Thoothukudi district" has been divided into seven chapters.

The introductory chapter I is the introduction, it discusses the meaning of the terms ‘entrepreneurs’ and ‘entrepreneurship’, theories of entrepreneurship development, role of entrepreneurs in economic development, entrepreneurship in India, micro enterprises, the District Industries Centre (DIC), statement of the problem, objectives of the study, hypotheses, limitations and chapter scheme.

Chapter II discusses the Review of Literature relating to the past studies.

Chapter III describes the methodology adopted for the present study and it also discusses the profile of the study area.

Chapter IV deals with socio-economic profile of selected micro entrepreneurs.

Chapter V analyses the enterprise involvement and the performance of micro entrepreneurs.
Chapter VI examines the problems faced by the micro entrepreneurs.

Chapter VII presents the summary of findings, conclusions and offers suggestions based on the findings of the study.