CHAPTER-2

DEVELOPMENT BANKS AND ENTREPRENEURSHIP

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CHAPTER-2

DEVELOPMENT BANKS AND ENTREPRENEURSHIP

PART - I

Development banks – track record:

The concept of development banking started as a campaign in middle of twentieth century. After world war-II when International Bank for Reconstruction and Development (IBRD) and International Monetary Fund (IMF) came into existence as main international development banks in 1945 with the objective to activate and assist the economies shattered by world war. According to C.D. Khanna, ex-chairman of IFCI, the concept of development banking started with the pioneering work done by the World Bank (WB) by promoting a large number of development banks in the developing countries of Asia, Africa and Latin America. The co-operative and dynamic role and attitude of the chief executives of these development banks encouraged the ideology that they should work for entrepreneurial development. The banks assumed the developmental role of economies covering a wide range of specialized services and functions. It included specific functions involved in the process of enterprise creation and development. Thus, the philosophy of development banks influenced and motivated the creation and promotion of development culture.

1.12 "Searchlight on Development Banking", by IFCI, Tower 61, Nehru Place, New Delhi-19.
The first development bank "Society de Generale de Belgique" was set up in 1822 in Belgium with the specific object of project financing and promotional activities. "The Credit Mobilizer of France" set up by the Pereira Brothers in 1852 enlarged the scope of functions of development bank by providing not only promotional activities but also mobilized savings and deposits. Similar specialized financial institutions were established in Germany, Austria, Spain, Netherlands, Italy, Switzerland, Belgium and some other countries. It is now a history that the World Bank gave speed to this movement by setting up 68 development banks in 44 developing countries after world war-II.

Inter-American Development Bank (1959), Asian Development Bank (1967), Industrial and Mining Development Bank of Iran (1959), Regional Development Bank of Asia and Africa (1960), Industrial Development Bank of Canada (1944), FCI and ICFC of England in 1945, IFCI in 1948, ICICI in 1955 and IDBI in 1964 etc. proved the acceptability of role and functions of development banks. These banks act as gap-fillers in the development of post-war economies. The major thrust of development banks is to encourage the promotion of entrepreneurship in different sectors of the economy and have brought development revolution.

In India the development Banks are operating primarily in private sector and have functional areas from regional to international levels. Despite this diversity in scope, operational area and ownership, development banks have similarity in the basic functions, operations and purposes. They are engaged in operating as promotional, innovative, entrepreneurial and developmental activities. The importance of industrial growth was felt at political level even in the pre-independence period. The Government of India established a number of commissions and committees such as Indian Industrial Commission (1916-18), External Capital Committee (1924), Central Banking Enquiry Committee (1931) and All India Institutions for meeting the financial requirements of industries of regional and national importance.\textsuperscript{1,13} With the assistance of Finance Wing of the

Planning and Development Department, the Reserve Bank of India (RBI) conducted detailed study in 1945. Adreshir Dalal and C.D. Deshmukh, then Planning Member and Governor, Reserve Bank of India, respectively, recommended the establishment of specialized institutions at national and state levels and, thus, the Industrial Finance Corporation of India (IFCI) was established in July 1948. The establishment of regional institutions at state level followed. Financing of small and medium-sized enterprises was considered necessary from the viewpoint of income and employment generation necessitating the passing of the State Financial Corporations Act, 1951 and, thus, came into being a number of State Financial Corporations (SFC). These financial corporations supplemented long-term financial role of IFCI in extending long term finance to small and large enterprises. The development banks aimed at underwriting new issues, promoting and encouraging new enterprises. For doing so, it was expected to adopt a rational approach instead of continuing with the traditional and conservative role to advance. These banks, however, failed in their new role due to: -

(i) Their constitutional and legal limitations and bindings;
(ii) Lack of viable and proper financial structure;
(iii) Excessive degree of government control and interference; and
(iv) Lack of competent and sufficient technical staff.

To meet this challenge and to overcome the lapses in the implementation aspect two new institutions, i.e. the National Industrial Development Corporation (NIDC) in 1954, and the Industrial Credit and Investment Corporation of India (ICICI) in 1955, were established. NIDC was wholly government-owned company to promote industrial enterprises which were necessary to fill the gap in the country's industrial structure. These were expected to provide both entrepreneurial and financial assistance. However, as the Central Governmental agency, it confined its functions to the promotion of certain industries in the public sector only. The private entrepreneurs were, entrepreneur in true sense of
the word, left by themselves. Another development bank i.e. the Industrial Credit and Investment Corporation of India (ICICI) was, thus, floated in 1955 as one of the development banks. It was sponsored by the World Bank – International Bank for Reconstruction and Development (IBRD) as a public limited company in the private sector with the object to establish a bank, which should be free from any interference from the government and provide a viable financial structure for corporate private sector. The ICICI started underwriting work from the very inception. A number of other financial institutions were established thereafter. After receiving the large loans from the World Bank, it served as a channel for the World Bank’s assistance to Indian private sector. In 1956, the list of such financial institutions was further enlarged by the nationalization of four life insurance companies and establishment of a single body named ‘the Life Insurance Corporation of India (LIC)’. In 1958, the Government of India decided to introduce a scheme of term lending by the commercial banks. It also established the Refinance Corporation for Industry (RCI) in 1958 as a wholly owned subsidiary of the Reserve Bank of India (RBI) for providing refinance to commercial banks against term loans. Later, it was merged with the Industrial Development Bank of India (IDBI) when it came into existence in 1964. The major reorganization and strengthening of the structure of specialized financial institutions took place in 1964 with the establishment of the Industrial Development Bank of India (IDBI) as an apex institution in the sphere of medium and long-term financing. It was established to co-ordinate the activities of the existing financial institutions and to provide assistance in their financing work by the refinancing facility for long-term loans, subsidizing their bonds and debentures, rediscounting the bills of commercial banks and SFCs and guaranteeing their deferred payments. It also has the provision of direct financial assistance to industrial units. However, in the changed scenario of LPG (liberalization, privatization and globalization). The development banks have diversified operations for entrepreneurs. A diversification that started to take place after March, 1991 is explained under the respective DFIs introduction.

Unit Trust of India (UTI) was established in 1964 which was quite new and unique in nature, to help the private investor and to mobilize small savings
for industrial investment. General insurance companies were also nationalized in the early 1970s, which started functioning as one of the main institutional investors in industrial securities. In the second half of 1960s, a number of state governments established State Industrial Development/Investment corporation (SIDC/SIIC) for rapid industrialization of their states. These SIDCs/SIICs not only developed industrial estates and provided infra-structural facilities for industrial units but also participated in their equity and provided term loans/underwriting assistance.

The development banks - young in twenties, wise in thirties and rich in forties - were not development banks in the true sense of the term as is used in case of development banking. Indian development banks are working for the last six decades with satisfactory (to some extent) working results in financing, refinancing and other development activities.

The new century is over-burdened with developmental psychology as well as with the worldwide depression. The dimensions and course of socio-economic growth are seeking new directions. The technological advancement opened floodgates of problems of different nature and new character. The entrepreneurial growth has trifurcated the entire global economies into three broad categories namely developed economies, developing economies and undeveloped economies. The absence or the slow growth of entrepreneurship has been the root cause of socio-economic backwardness in undeveloped and developing countries. The development banks are assisting in the process of generating an entrepreneurial society where human beings contribute to their best ability to explore the healthy criteria for the evolution of a new economic order based on socio-economic justice and equality. ‘Development is not the product of finance alone but outcome of visionary entrepreneurship, which is a dynamic and continuous process. In the light of this logical view, we have to assess what has been the role and contribution of these banks in the promotion of entrepreneurship.
If exchange of value and valuables is considered in wider terms, the banking is nearly as old as the man himself is. The banks today do not only exchange cash and securities but also perform a host of other functions. With the passage of time and change in socio-economic circumstances, the form of banking and their operations have assumed new role and functions. This has resulted in widening the operations in the field of scientific, technical and economic development of industry in all the economies, which need to mobilize savings and invest it in growth oriented projects. Unutilized savings and deposits are liabilities on resources of the banks.

Though the financial assistance to enterprises is one of the important functions of development banks, it is not the whole story. ‘Finance is a vital element for any economic activity. It not only facilitates the start of process of economic growth and development but also provides endurance and strength for its continuity. When finance becomes available to the prospective entrepreneurs, industrial development get initiated giving rise to new investment opportunities attracting new persons to enter into the industry finally resulting in entrepreneurship development. This participation of new members as entrepreneurs in industrial, manufacturing or other economic activities is influenced by many factors. This study is an earnest attempt to assess the role of development banks in this process. Regarding availability of financial resources we are presently not concerned with the internal resources available with the entrepreneur but take up outside sources for which the development financial institutions play most significant role.11

The banking sector has adapted itself, its policies, strategies and working according to the growing needs of the economic climate in the geographical area of their operations and its requirements. In the present study, the researcher has restricted his study to Industrial Development Bank of India (IDBI), Industrial Finance Corporation of India (IFCI), Industrial Credit and Investment Corporation of India (ICICI), Small Industries Development Bank of India

11 Sharma R.A., Entrepreneurial Change in Indian Industry, New Delhi, Sterling Publisher (P) Ltd.1980, p.154
(SIDBI) and the Industrial Investment bank of India IIBI for his study, analysis, interpretation and comparison.

In India, we have enviable record of industrial growth. In pre-independence period peculiar conditions prevailed leading to concentration of control of industries in the hands of a few industrial families such as Tatas, Birlas, Dalmias, Kirloskers etc. to quote a few. These families entered the industrial world as a family business. The new generations, in these families, have accepted the entrepreneurship as a qualified and technical profession.

In 2002 the London Business School and Babson College, U.S. conducted survey ‘the Global Entrepreneurship Monitor’ (GEM), Indian part of which was handled by the Indian Institute of Management, Bangalore (IIMB). Prof. Prakhya (IIMB) commented, “the social capital is critical for entrepreneurship. In India the family and the social institutions largely drive business which do not support risk-taking.” It concluded that ‘India has fared poorly in terms of its attitude towards entrepreneurship on account of the fear of failure to start any industrial activity’. The business empires, in India, are still established and run on family basis from generation to generation. The only exception was shown by the technological advancements in information technology, communication engineering, bio-engineering and technology in the last couple of decades and now new people are treading the path not undertaken by their ancestors.

After independence Government of India strived to accelerate speed of industrial development and drafted an Industrial Policy Resolution, 1948 to guide the industrial growth. The deliberate schematic planning (5-year plans) emphasized industrial growth and the Companies Act gave direction by providing procedure for a liberal industrial licensing, import of new technology, collaboration, amalgamations and mergers. This helped in creating sound industrial infrastructure to provide finance, technology and latest managerial know how.

1.2 In start-ups, India is yet to catch up, Times of India dated 17th April 2002
The development bank and development banking started after World War-II. The idea originated in the West and gradually found acceptability in other parts of the globe. Now role of development banks is recognized catalytic agents in almost all economies discharging multiple functions. The industries in pre-independence period were outdated and obsolete. The development banks work as per political, social and economic climate of the economy. This has resulted in stress over their functions and policies, which are not necessarily always based on economic considerations. William Diamond (1957) categorised the development bank as “an institution to promote and finance enterprises in the private sector.” Boskey (1959) described development banks as “institutions, public or private, which have the making of medium or long-term investment in industrial projects as one of their principal functions,” and Kane’s (1975) as ‘financial intermediaries transferring domestic and foreign savings into investment supplying medium and long-term funds to bankable economic development projects and providing related services.” These banks do not compete, but act as gap-fillers, to the normal channels of finance. Houk says (1967) these banks perform both banking and development functions, which is gauged by income generation to cover the cost of operations, repayment of loan and interest and leaves profit to induce entrepreneurs to start and run the operation. Obviously, the bank bears in mind that funds keep on revolving (invested, repaid and reinvested). The criteria are productive investment by taking decisions on assessing long-term economic viability and the general perception of the sponsors i.e. the managerial and entrepreneurial considerations. The providing of term-

13 Diamond William, Development Banks, Baltimore, Johns Hopkins Press, 1957, p.4-5
capital was crucial to attract and give effect to others entrepreneurs.\textsuperscript{19} Therefore, it will have to attempt for solution of, in addition to its regular and customary banking functions, certain problems or bottlenecks to development, the magnitude and importance of which vary from economy to economy.\textsuperscript{110} These activities have been termed as ‘Promotional Activities’ of development banks.\textsuperscript{111}

The views expressed are with reference to medium and long-term financial assistance in self-sustaining and economically viable projects. The role and functions of development banks are more or less same in the developed and developing economies. The development banks are taking up diversified roles, varied functions and new projects and, thus, have established liaison between industry and agriculture by promoting entrepreneurship in both the areas. They act as ‘facilitator or catalytic agent or gap fillers’ to meet the changing and increasing needs.

For the purpose of this study, the development bank means a bank which is ‘facilitator, promoter, accelerator and gap-filler’ of any industrial activity. Its role goes beyond traditional modes of financing against tangible securities and scope of recovery with high interest. The bank indirectly creates a climate conducive to undertake a manufacturing and/or trading activity and encourages an entrepreneur to take risk of starting an economic activity. These banks, apart from financial assistance, provide technical, managerial, collaborative, constancy and marketing support in varied forms. These banks also provide a number of infrastructural services. These free services act as catalytic agents in the promotion of entrepreneurship. It explores markets at different levels (local, national and international), helps in personnel planning and procurement, assists in procurement of material and machinery, training, monitoring production activity, its optimal utilization, marketing of output etc. etc.

\textsuperscript{19} Diamond William, “what is a Development Bank’s Business? An Introductory Note on establishing Goals and Strategies,” in Diamond William.

\textsuperscript{110} Houk J.T.D., op. cit., pp. 3-6

Development banks and entrepreneurial promotion:

A development bank contributes in a number of ways in the promotion of entrepreneurship. The areas of role of development banks in the promotion of entrepreneurship are listed hereunder:

1. It generates entrepreneurial environment and promotes, encourages and stimulates the entrepreneurial resources and spirit systematically.

2. It assists the potential entrepreneurs from the stage of generation of idea to the stage of appraisal of the projects and facilitates the entrepreneur to engage in a manufacturing activity.

3. It motivates and encourages the new entrepreneurs to step in and explore new areas of manufacturing processes or the qualitative change in the existing process with available inputs or substitution of cheaper inputs or inputs available locally.

4. It advises the Central or State Governments and Planning Commissions boards on matters of planning, policy-making and devising strategies to achieve socio-economic development with growth in employment opportunities and reduction in economic disparity.

5. It mobilizes savings and deposits in innovative and diverse economic activities.

6. It promotes balanced socio-economic growth.

7. It advises the entrepreneurs and allocates funds to the most productive venture in the areas desired by the state policy.

8. It minimizes the risk of failure of business by guiding new entrepreneurs in the area of product-mix, the scale of operation, the level of technology, the plant facilities, the financial structure, the foreign collaboration, the marketing arrangements, the managerial arrangements and other essential inputs.
9. It encourages socially useful investment in order to increase and improve the social service quantitatively and qualitatively.

10. It helps to know the operational, financial and economic health of a particular area by conducting researches, compiling data and helps in planning at governmental level.

11. It provides financial aid, technical assistance, project appraisal, evaluation and economic viability in short and long run.

12. It provides information regarding desirability of merger, amalgamation, absorption and reconstruction of the running concerns/units for better and fruitful operations of the enterprise.

13. It develops harmony and co-ordination between industry and agriculture. This results in availability all inputs in time and in sufficient quantity which alternatively encourages new enterprise and generation of employment and better utilization of available resources. Indirectly it helps in creating market for locally available raw material.

14. It sponsors and organizes seminars, conferences, symposia and compendium on various economic issues, which help in solving many problems in various sectors of the economy.

15. It strengthens the entrepreneurial drive, awareness and campaign in rural and backward areas, hilly regions and industrially backward geographic regions.

It may be briefly stated that a development bank plays crucial role in any economy by promoting entrepreneurship through a number of assistance and services (with or without charges). In co-ordination with the policies of the state, the development banks have devised a number of portfolios to suit the modern day entrepreneurial requirements. It acts as catalytic agent in the manufacturing activity, which leads to economic growth. It is, thus, an engine of socio-
economic growth. The development banks have been performing role as friends, guides and philosophers.

Promotional activities: -

Promotional activities are the indirect assistance provided by the development banks in the promotion of industry and resultanty the entrepreneurship. In promoting entrepreneurship, the development banks discharge various functions. These functions are more or less the same in all the development banks with slight modifications as per local needs of the beneficiaries. The promotion functions are direct as well as indirect. Statistical tools can only assess the rate of impact of any indirect measure undertaken by a bank with certain assumptions dealt with in this study at the relevant place. These functions are: -

A. Primary and traditional functions

B. Extended functions

A. Primary and traditional functions: -

These functions of development bank for the purpose of entrepreneurship development are listed herein below which also include a number of other functions, which the management of the bank may deem necessary: -

1. Mobilization of the Public-Saving and deposits.

2. Allocation of mobilised resources among the viable projects for productive investment. The allocation functions include sanctioning and disbursement of loans and timely recovery.

The various aspects of primary and traditional functions of the development banks may be studied separately under the above broad heads which are the only indicators for a number of other functions which these banks have assumed presently.
B. Extended Functions:

William Diamond, an international authority on development banking, is of the view that ‘There is big room for dynamism and creative imagination on both sides of the financier’s balance sheet.’ This dynamism is expanding the limits and improving the quality of both assets and liabilities. He suggested creative and aggressive search in additional business and invention of new projects and inducement to savings and deposits, the search for newer, better, productive and socially useful and relevant investments. It creates new institutions to provide specialised services and carries out varied entrepreneurial functions. The Development Financial Institutions (DFIs) have the responsibility to transform the environment for promotion of entrepreneurial spirit rather than simply to provide finance required to help operate the economy.’

William Diamond has summarised the whole gamut of entrepreneurial functions of a development bank in one word viz. ‘Promotion’. He opines that ‘promotion is the process of enterprise creation, development and sustaining. It involves the formulation and development of a proposal, the mobilization and organisation of various resources of production needed to give life to it and finally its execution and maintenance’. Promotion is, in effect, the carrying out of the entrepreneurial function. The development banks also use the term promotional functions and innovative functions for entrepreneurial functions.

In modern times, the role of development bank in socio-economic process and activities is constantly increasing. The traditional functions are also taking a new turn and giving way to the changing environment. The entrepreneurial functions of the development banks can be further divided into two following broad categories i.e.


(i) mobilization of resources; and

(ii) Utilization of resources.

Both the resources are detailed hereunder.

I Mobilisation of Resources: -

The mobilization of resources is to create and assemble resources so that these are used in social useful and economically viable manufacturing activity. It is a step towards entrepreneurship promotion. The resources may be created and mobilised in the following ways:

1. Invention of new instruments, inducements to encourage and attract public savings and deposits and removal of environmental inhibitions to savings and deposits.

2. Making the savings a profitable proposition and in the interest of the small and marginal people – people near the poverty line.

3. Increasing the quantity and improving the quality of public savings and deposits.


5. Advising the business community the entrepreneur and society on matters of savings and investments.

6. Public issue of shares, bonds, debentures and other new negotiable instruments in domestic and international capital markets for augmenting internal funds.

7. Increasing self-generation of internal resources.

8. Arranging consortium loans agreements, which is essential for any entrepreneurial activity.
II Utilisation of mobilised resources: -

Mere saving of resources is not enough. The savings are liabilities unless applied in productive use. It is the entrepreneur who applies such saving, deposits and resources in productive ventures. The productive utilization of the savings may be in the following manner:

1. To make improvement in the operational environment and outlook in economical, social, political, legal, cultural, technical, entrepreneurial and international environment.

2. To envisage the schemes of joint financing of projects involving huge investment of financial and technical resources.

3. To provide qualitative and quantitative technical consultancy services to the new as well as running enterprise.

4. To assist in the establishment of ‘Entrepreneurship Development Institutes’ (EDIs), ‘Technical Development Institutes’ (TDIs) and Management Development Institutes (MDIs) to promote entrepreneurial management.

5. To initiate promotional schemes to assist potential entrepreneurs.

6. To conduct surveys and research in the different sectors of the economy.

7. To encourage the promotion of Industrial Estates, Science & Technology Park for developing entrepreneurship in small and medium scale sector, rural and backward areas, special hill regions and no industry zones.

8. To visualise and implement schemes for the up gradation of new technology and its application in rural areas.

9. To advise the government on policies regarding:

   i. Industry and its licensing.

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1,16 Development”, Searchlight on Development Banking by IFCI 1985, Tower 61, Nehru Place, New Delhi-19.
ii. Development of backward areas.

iii. Import – export.

iv. Credit and promotion of investment

v. Revival of sick units.

vi. Modernisation, rehabilitation, expansion & diversification.

vii. Environment protection.

viii. Foreign aid, loans and concessional finance etc.

ix. Equipment and lease financing.

x. To supervise and control assisted enterprises.

10. To assist potential entrepreneurs in the areas of project planning such as identification of new projects for new enterprise; formulation and preparation of a bankable projects; implementation and supervision of projects; Evaluation and appraisal of projects.

Thus, development banks discharge a variety of entrepreneurial functions for creation, promotion, proliferation and rehabilitation of entrepreneurship. The development banks have continuous and expanding role in an economy. Development banks shape the process of socio-economic growth by invigorating, rejuvenating and reviving the pulse of entrepreneurship. The development banks play important and multiple roles in various forms.

Entrepreneurship promotion may be termed a new socio-economic movement encouraged and developed by the development bank. The promotion is the first process of enterprise creation and it involves a number of innovative and entrepreneurial activities. The promotional activities of development banks are catalytic in nature and growth-inducing vehicles in the economy. They generate a new environment for the promotion of state and private entrepreneurship of different size and magnitude at different levels. To facilitate such promotion these banks not only provide financial inputs but also undertake
project evolution, research, collaboration, assessment, socio-economic viability and political desirability.

The area and scope of entrepreneurial promotional activities are also expanding gradually. The development banks are improving quality of the operational environment by rendering a variety of services both quantitatively and qualitatively. These banks promote entrepreneurship and enterprise-building abilities in rural and backward areas and strengthen the tempo of up-gradation of managerial skills and technical know-how. They encourage human resource development by activating the dormant entrepreneurial wealth through Entrepreneurship Development Programs (EDP), training and risk capital assistance to the first generation infant of entrepreneurs.

Development banks promote congenial infrastructure, consultancy, financial, managerial and entrepreneurial culture. The banks strive to create an entrepreneurial society, which provides better opportunities of work and employment. The catalytic role, entrepreneurial campaign and promotional work of development banks are providing strength in different and newer areas. Thus, the horizons of entrepreneurship development are widening with the aid and assistance of development banks particularly in developing countries.

Development banks create mutual trust and confidence by sponsoring and organising seminars on development issues and promote collaboration with professional bodies. They have created research chairs in universities and research institutes to encourage research in specific areas such as finance, management, economics, development banking, operational researches and entrepreneurship development. Even the technical and technological areas are given fillip by research and development wings of big business houses, which have started separate human resource development departments. Development banks provide basis for such entrepreneurial activities.

Today the development banks are seen as growth inducing centres and engine of socio-economic development, augmenting creative process through entrepreneurial and promotional activities. The socio-economic impacts of these
development banks have started showing good result. It is need of the hour in the new century which brought the worldwide depression in the very beginning.

The development banks establish liaison between industry and agriculture by promoting entrepreneurship in both areas. They broaden the horizons for trading entrepreneurship in animal-based, mineral-based, forestry-based, aqua-based, handicraft-based, chemical-based and techno-based entrepreneurship.

It is true that the role of development banks differs institutional, regional and sector-wise. It is gratifying to note that some development banks like World Bank, Asian Development Bank, Industrial Development Bank of Canada, FCI and ICFC of England, IMDBI and IDBI etc are not merely functioning as the providers of finance but also as promoter of entrepreneurship and industrialization and sustain it.

Problems of development Banks: -

Banks are controllers of credit regulators of financial commerce, the place where borrows obtain loanable funds and lenders succeed in getting credit-worthy borrowers for their surplus money. In the money market, DBs are not comparatively well-integrated units. The call money market, thriving on the principle that there is not permanent surplus or deficit fund, is not so sound. The Discount and Finance House of India (DFHI) allows development financial institutions to operate in call money (institutional arrangement of financial assistance), is indicator of liquidity. Administered rates of call money are not desirable for betterment of the system. Vaghul Committee’s recommendations and their acceptance by Indian Banks’ Association for exemption from ceiling rate created imbalance in demand and supply of the money. DBs participation allowed only in 1990. On withdrawal of ceiling on call money rates, there has been sharp fluctuation and imbalance of demand and supply of bank reserves. Only bunching now makes the compliance of cash reserve ratio (CRR). The average daily call money rates were higher at 9.09% in 1999-2000 as against 8.13% in 1998-99. Contrary to the concept, the treasury bills are permanent
source of funds for the Central Government through removal or conversion of
treasure bills into long term bonds. Treasury bill market is highly underdeveloped
and only RBI holds the control over the total banking system of the country as
captive of Central Government though it is run under the Reserve Bank of India
Act. It has to follow the Government policies and plans from time to time. The
Repo report (1999-2000) on currency and finance notes that, “Repo help to
manage liquidity conditions at the short end of market spectrum, provide banks
an avenue to park funds generated by capital inflows to provide a floor to the call
money market. Repos the sale and purchase at predetermined rates, of debt
instruments of Central and State Government, prevent speculative activities
during foreign exchange volatility.”

Popularity of cash credit system in bank
lending and unwillingness to bind to payment discipline associated with
commercial bills has reduced the use of commercial bills used by businessmen
and banks alike, bills require self-liquidating character. Certificates of deposit
(CD) issued by banks for a specified period are negotiable and tradable. Less
used by entrepreneurs because the cash credit system suits them the best. It is
short-term financial arrangement. DFIs, however, facilitated certificates of
deposit up to three years’ period discountable like Bill of Exchange. CD worth
872 crores of rupees were outstanding as on 5th May 2000. Average discount rate
of CD has reduced steadily from 11.16% to 8.00% as on 2nd June 2000. To bring
CDs at par with other instruments such as (Commercial Papers) CPs and term
deposits, the minimum maturity of this instrument was reduced from 90 days to
15 days in April 2000. CP is an instrument of raising short term funds by
corporate like an unsecured promissory note sold by issuer to bank or a security
house Vaghul Committee has strongly recommended introduction of CPs which
is available at rate lower than bank borrowing rates. It can be issued only by a
listed company having more than five crores rupees of working capital.

However, there are number of problems the banking in India suffers from.
These problems are more severe in case of DBs. These are:

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1. **Lack of integration.** Banking sector is divided in organised and unorganised sectors and each sector has nothing to do with the other sector as both the sectors are completely separate. More the competition than cooperation and coordination between various components of various banks is simply impossible. Competition is not only between the commercial and nationalised banks but also between the co-operative and land development banks and national and foreign banks.

2. **Lack of rational interest rates structure:** Due to lack of adequate co-ordination between different banking institutions. RBI has standardised the interest rates but it suffers from various defects i.e. (i) low yield on Governmental securities; (ii) Too many concessional rates of interest; and (iii) Inappropriate deposit and lending rates of commercial banks.

3. **Absence of an organised bill market:** Inland and foreign bills are purchased and discounted by commercial banks but still it cannot be said that the bill market is organised. Only limited RBI has created bill market. Lack of uniformity in commercial bills and popularity of cash credit are serious obstacles.

4. **Shortage of funds in the money market:** Demand for loanable funds is more than its supply. This, in return, is because of variety of factors such as low per capita income, poverty resulting in poor saving capacity. The wasteful consumption by a few with greater per capita income and inadequate banking facilities, lack of banking habits absence of ample and diversified investment opportunities are some of the factors for shortage of funds. Failure to mobilise the saved funds, discouraging parallel economy and vast amount of black money is impediments in the way.

5. **Seasonal stringency of funds and fluctuations in interest rates:** India is essentially an agricultural country and its demand, supply of funds depends on farm operations, and trading in agricultural produce which is sufficiently elastic. The entrepreneurial activities are also connected with the agriculture.
6. Inadequate banking facilities: It need no statistics to prove that the banking facilities in our country are less in comparison to a number of other countries what to talk of developed ones. In U.S.A., every 1,400 people have bank facility whereas in India it is 15,000 people who have banking service available. When there is not adequate, banking facility there could be saving neither boost nor the entrepreneurial finance available with the DBs or even the commercial banks.

PART-II

ENTREPRENEURSHIP

The concept of entrepreneurship promotion is emerging with the up-gradation and application of technology in the industry. The purpose of this chapter is to understand 'entrepreneurship promotion', its development and to know if the entrepreneur, entrepreneurship and enterprise mean the same thing? What has been the pace of role and contribution of development banks (DBs) in the development of entrepreneurship spirit is also taken up in this study.

Enterprise, entrepreneur & entrepreneurship: the concept

The development of an economy depends on the people who are motivated to achieve something by taking responsibilities and are willing to take risk. They are called 'entrepreneurs'. Success stories of such entrepreneurs are in abundance. The third world countries engaged in fuller utilization of resources – human or natural – abundantly available in these countries felt need of entrepreneurial skills. A person, real or fictitious, who undertakes any manufacturing or trading activity is called ‘entrepreneur; his activity or adventure is called ‘enterprise’; and desire and capability. ‘entrepreneurship’.

Various authors differed on the term ‘entrepreneur.’ They, however, agreed as to how the skills that make an entrepreneur could be developed and how its supply could be increased. Most of the authors have simply given definitions in terms of entrepreneurial functions. Some of them emphasized on
their functions whereas the others emphasised on their characteristics and still others the requisites of their development. For the sake of convenience, we have classified the definitions and various schools of thoughts on this concept as conventional and modern view, which are being discussed hereunder in the system fashion.

**Conventional view:**

'Entrepreneur' bears non-insurable risk, says Cantillon, by buying factors of production and selling his products at uncertain prices. J.B. Say, while differentiating the entrepreneur from the capitalist, added functions of continuous management of co-ordination, organization and supervision to an entrepreneur. Walras agrees. Knight's entrepreneur bears uncertainty and risk which cannot be calculated, insured or salaried. Pioneer introduced human element saying that the entrepreneur was an innovator and engineer of change and made development by introduction of new goods; new methods of production; opening new market; new source of raw materials or half-manufactured goods; and carrying new organization for any industry. According to him “earnings for management” (monopoly gains, windfalls or speculative gains) without entrepreneurial profits was not the role of entrepreneurship. Profits are the premium for innovation and arise from no other source. If they accrue from other sources (monopoly, windfall or speculation) it is not desirable for the economic development. Innovation sets up only a temporary monopoly gain which is soon wiped out by imitation. For profits to continue it is necessary to keep one step ahead of rivals with innovations. Schumpeter differentiated an investor and an innovator. An inventor discovers new methods and new materials and an innovator is one who utilises inventions and discoveries to make new

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combinations. W. Robert Maclaurin divides elements of technical advance into:
(i) development of pure science;
(ii) invention;
(iii) innovation;
(v) financing of innovation; and
(vi) acceptance of the innovation.\(^2\)

A large number of indigenous Schumpetarian entrepreneurs are trading
type innovators whose innovations opened new markets. In the light of possibilities
of technological transfers from advanced economies, the undue emphasis need
not be put on the development of entirely new combinations.\(^2\) Hoselitz also
remarks that in an underdeveloped economy, not to speak of Schumpetarian
innovators, even imitator-entrepreneurs give a fillip to the process of economic
growth, sometimes having as strong or perhaps even stronger impact on
economic growth as real or alleged innovations.\(^2\) Hoselitz says that all
definitions (of entrepreneur), at one time or the another, were associated with one
or more than one of the following: -

(i) uncertainty bearing;
(ii) co-ordination of productive resources;
(iii) introduction of innovations; and
(iv) making the provision of capital.\(^2\)

\(^{28}\) Maclaurin W. Robert, "The Sequence from Invention to Innovation and its relation to
\(^{29}\) Nafziger E.W., op. cit., p. 25.
\(^{10}\) Hoselitz Bert F., a review of “Entrepreneurs of Lebanon: The Role of Business Leader in a
\(^{11}\) Kilby Peter F., “Hunting the Heffalump” in Entrepreneurship and Economic
The entrepreneur is, thus, undertaker of industrial activity at a great risk of its success. In his such endeavour the various factor help and there are a lot of constraints.

The Modern View

The innovative spirit has widened the range of entrepreneurial functions. The entrepreneur of today knows well how to deal with production, marketing, the Government (local, provincial and national), the legal system, the workers, the trade union leaders, the commercial and development banks, the consumers and their associations and last but not least the changing environment. Today the entrepreneurship is regarded as the most active propeller in the process of socio-economic development and reformation. The essence of an entrepreneur is that he can react to changing circumstances and cope with all activities involved in promoting and running profitably any enterprise, trade or service. The entrepreneurial behaviour has brought in a new approach, style and attitude and has replenished his role, image and functions by new methods of production. The creator of an idea and its implementation in the form of manufacturing enterprise is the entrepreneur.

The economists also differ whether entrepreneur is a group or individual (a real or fictitious person). Casson says entrepreneur is “someone who specializes in taking judicious decisions about co-ordination of scarce resources” and explains that entrepreneur is a person, not a team or a committee, or an organization. A judgmental decision is one where different individuals share the same objectives and act under similar circumstances but take different decisions.\(^{\text{2.11}}\) Cole and Young take ‘entrepreneur’ as group and defined ‘entrepreneurship’ as the purposeful activity, of an individual or a group, undertaking to initiate, maintain or aggrandize a profit-oriented business unit for production or distribution of economic goods and/or services.\(^ {\text{2.12}}\) One may find

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clusters of such entrepreneur that may qualify as entrepreneurial groups, as the

groups with higher capacity to react.213

Finding no agreement to the meaning of 'entrepreneur', Kilby compared
'entrepreneur' with 'Heffalump'-a large and very important animal which was
hunted by many individuals, but no one succeeded in capturing him. All those
persons who claim to have seen him describe differently about his particularities
and thus no agreement exists in their description about the animal.214

Entrepreneur takes calculated risk, for a profitable industrial activity that
is uninsurable and incaeruleable. Kilby’s entrepreneurial functions included
managerial functions also. These functions may be listed hereunder:

1. Perception of market opportunities (novel or imitative),
2. Gaining command over scarce resources,
3. Purchasing inputs,
4. Marketing of the products and responding to competition,
5. Dealing with the administrative bureaucracy for concessions,
licenses, and taxes,
6. Management of human relations within the firm,
7. Management of customer and supplier relations,
8. Financial management,
9. Handling production management (control by written records,
supervision, co-ordination of inputs).
10. Acquiring and overseeing assembly of the factory,
11. Industrial engineering (minimizing inputs of process),
12. Upgrading process and product quality, and
13. Introduction of new production techniques and products.215

He divided the above functions into four sub-groups, (a) exchange
relationship (1-4); (b) political administration (5-7); (c) management control (8-

2.13 Young F.W., “A macro-sociological Interrelation of entrepreneurship in Kilby Peter F.
Whether 'entrepreneurship' is inborn capability or it can be inculcated and developed by various assistance is the point of great anxiety. One school of thoughts claim that the external assistance, including the assistance rendered by the development banks, is must for entrepreneurial promotion. Thus, it claims that the entrepreneurship can be inculcated and developed and it need not be inborn human quality. Undoubtedly the entrepreneurs come from the society itself, which helps in its formation and development. Development banks are systems and institutions of the society. Favourable environment, therefore, helps in the creation and development of entrepreneurship. Before considering definition and nature of entrepreneurship, it is of necessary consequence to examine, in this study, some theoretical opinions on the question of supply or creation of entrepreneurship.

Entrepreneurship where it comes from:

Enterprise creation is the outcome of creative application of efforts of an entrepreneur in any manufacturing activity. The industrial, commercial and trading entrepreneurs are called the 'prime movers' and are 'catalytic' in the field of creation and promote of an enterprise in a congenial environment for the development of trading, commercial and manufacturing activity. They influence and determine the destiny of pace of industrial development of the economy with the help of their entrepreneurial abilities and skills.

Entrepreneurial history, as given in the beginning of this section of the study, brought a landmark change in the definition of an entrepreneur from the beginning of the sixteenth century. Today economists have reached a consensus on entrepreneurial functions and processes. An industrial entrepreneur identifies the potential areas of the ventures, analyses it critically, estimates the risk involved accurately, undertakes sound and timely decisions to promote the enterprise, assembles the relevant inputs to float the venture and finally manages

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2.16 Kilby Peter F., op. cit., p. 28.
it efficiently for translating his profitable idea into economic and commercial reality and fruition. His judgmental perseverance is based on internal and external environment affecting his goal of success in business. Thus, an ideal and successful entrepreneur performs the following important entrepreneurial functions in the whole gamut of entrepreneurial process. This process comprises Risk-bearing, innovative, decision-making, managerial, environmental functions, leadership, effective communication, social accountability and allegiance, profit-making functions, development, dynamism functions. The entrepreneurial functions have increased on account of technological revolution, managerial requirements, information communication revolution, socio-political awareness, environmental consciousness. Scope of entrepreneurial functions is, thus, widening up and covers the entrepreneurial policies and strategies.

Again the economists are not of one view regarding the creation and development of entrepreneurship. For the sake of convenience, these viewpoints are classified as oriented towards psychological, sociological and economic schools. The theorists like Schumpeter, McClelland, Hagen, Kunkel, etc. belong to psychological school; Max Weber, Cochran, Hoselitz, Stokes, etc., to the sociological school; and Papanek, Harris, Kirzner, etc., to the economic school. According to the social and psychological school, ‘entrepreneurship’ emerges either under a specific set of social conditions or when a society has sufficient supply of individuals possessing particular characteristics. The founders of economic school suggested that economic growth and development of entrepreneurs will occurs in those situations where particular economic conditions are most favourable. Economic conditions are composition of a number of factors, i.e. economic resources available, governmental policies, level of infrastructure available, availability of raw material and other inputs. Views of these schools are briefed hereunder: -

(1). The Psychologists’s View: Schumpeter’s entrepreneurs are primarily motivated by will to power, will to establish a private kingdom or will to

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conquer. Their main characteristics are: (i) an intutional capacity to anticipate and forecast things and act accordingly at right time.; (ii) energy of will and mind to overcome fixed habits of thought; and (iii) the capacity to withstand social opposition.\textsuperscript{2,19} McClelland’s theory is based on the ‘achievement motive’ of the entrepreneurs. This achievement motive is inculcated through child-rearing practice which stress standard of excellence, maternal warmth, self-reliance training, and low father dominance. McClelland derived result from the characteristic of different individuals demonstrated during his experiments. The above-said characteristics also included a little interest in performing routine tasks or performing in situations of high risk in contrast to keen interest in situations involving moderate risk where skill counts, a desire for responsibility and a desire for a concrete measure of task performance.\textsuperscript{2,20} Thus, according to McClelland the persons possessing high need for achievement are driven, by nature, for the entrepreneurial activities. Hagen takes withdrawal of status-respect as the trigger mechanism for changes in personality formation. Status-withdrawal is the perception of some social group that their purposes and values in life are not respected by groups in the society whom they respect and whose esteem they value. Hagen put forward four types of events that can produce status-withdrawal: (I) displacement by force; (ii) denigration of valued symbols; (iii) inconsistency of status symbols with a changing distribution of economic power; and (iv) non-acceptance of expected status on migration to a new society.\textsuperscript{2,21}

Kunkel’s behavioural model is concerned with the overtly expressed activities of individuals and their relations to the previously and presently surrounding, social structures and physical conditions. Behavioural patterns in this model are determined by reinforcing and aversive stimuli present in the social context. Entrepreneurial behaviour is a function of surrounding social

\textsuperscript{2,18} Wilken Paul H., Entrepreneurship – a comparative and historical study, New Jersey. Ablex Publishing corp., 1979,pp. 2-5.
structure and is influenced by manipulative economic and social incentives. It is social inter-active function and is generally reciprocative in nature and motivated by opposite party.

(2) The Sociologist's View: Cochran has taken cultural values, role expectations and social sanctions as the important factors for the creation and supply of entrepreneurship. He opined that the entrepreneur represents society’s model personality and his performance is influenced by three factors, i.e., his own attitudes towards his occupation, the role expectations held by sanctioning groups, and the operational requirements of the job. Society’s values are the most important determinants of the first two factors. Adoption of religious beliefs generated, according to Max Weber, the entrepreneurial energies. Another socio-economist Bert F. Hoselitz emphasized that the importance of culturally marginal groups in promoting economic development is most crucial. His hypothesis that marginal men, for their ambiguous position from a cultural or social standpoint, were peculiarly suited to make creative adjustment in situations of change and in the course of this adjustment process to develop genuine innovations in social behaviour.

(3) The Economist's View: According to J.R. Harris and G.F. Papanek economic incentives are the main drive for the entrepreneurial activities. In some cases it is not so evident but the persons’ inner drives have always been associated with economic gains or other similar incentives which are regarded as sufficient conditions for emergence of industrial entrepreneurship. According to Kirzner, the characteristic of the entrepreneur is that he is just as likely to be an individual as a businessman who recognizes that the market for a good or a service is out of equilibrium and he will exploit this position. Where there is

224 Kilby Peter F., op. cit., p. 7.
excess demand for a good at a given price, an individual may purchase goods at the prevailing price and sell to those who are prepared to buy at the higher price. Therefore, one can easily infer that entrepreneurship is affected by a multitude of factors and the supply of entrepreneurship can scarcely be ascribed to any single factor.

‘Entrepreneur’ of this study:

Entrepreneur, for the purpose of this study, is defined as one who detects and evaluates the new situation in his environment and directs the making of such adjustments in the economic system as he deems necessary for the handling of situation most favourably. He conceives an industrial enterprise for the purpose; displays considerable initiative, grit and determination in bringing his project into fruition and in this process performs one or more of the following functions:

1. perceives opportunities for profitable investments;
2. explores prospects of starting an manufacturing enterprise;
3. obtains necessary industrial licenses;
4. negotiates with the foreign collaborators;
5. arranges initial capital;
6. provides personal guarantees to the financial institutions;
7. promises to meet the shortfalls in the capital; and
8. supplies technical expertise, etc.

But he is not a mere executive, though he may also be appointed as one for the promotion of his company. Since the study is related to the ‘entrepreneur’ who has promoted enterprises in the corporate sector, we find a number of persons associated with the promotion of an enterprise. I have taken

the most active man behind such promotion, who has also been recognized or designated as the main promoter by the financial institutions. A ‘new entrepreneur’ has, however, been defined as a person who enters into manufacturing activity for the first time and performed some or all of the above mentioned functions. This definition of new entrepreneurs excludes all those persons, members of whose families were already engaged in manufacturing activity at large/medium-scale before the promotion of the present enterprise. The reason behind the exclusion of old and established entrepreneurs is that they do not find similar problems in dealing with financial institutions, government executives, and capital market as a new entrepreneur does while establishing a new enterprise. However the product diversification, revival of sick units and undertaking same production line in different operation – scientific or technological. Further, the purpose is to know the experiences of new class of entrepreneurs, i.e., the first timers and not members of the families controlling a large number of enterprises.2 29

Entrepreneurship and its anatomy

The entrepreneur is a human being and entrepreneurship is an endowment inherent in the personality of the human being. When an entrepreneur creatively applies his skills in the area of creation of any manufacturing or trading activity from the stage of identification up to the stage of commissioning he follows the perpetual process of entrepreneurship. Entrepreneurship is a golden practice and discipline of enterprise building and running it profitably. Thus, the basic ingredients of the entrepreneurial philosophy are as follows: -

1. Entrepreneurial stage related to perception of a gainful opportunity to establish a trading, industrial and service project.

2. Operational stage related with the assembling of relevant facilities for the floatation of the project.

3. Managerial stage related with the theory and practice of entrepreneurial functions and decisions and running the project as a profitable, going and growing concern.

4. Innovative stage related with the discovery of new method of production and technology for producing a variety of quantitative and qualitative goods and services for the community at large.

5. Risk-bearing stage related with the entrepreneurial capacity to bear economic, social, technical and environmental risks.

6. Maintenance stage related to the rehabilitation and modernization of the entrepreneurial sickness inherent in the organization. It may take many and different forms including amalgamation, take over or outright purchase.

Entrepreneurship—The Indian Scene: -

The entrepreneurial history of the Indian entrepreneurs gives an idea about the principles and practices it adopted. It need be mentioned in the very beginning that, in India, the entrepreneurship was the sole business of a few family who engaged themselves in some or the other occupation from generation to generation passing over the real life experiences in the most realistic sense and for the benefit of their coming generations. For fear of failure, new talent did not emerged on the scene until very late and after the industrial and technological revolution. Its stake in medium and large-scale entrepreneurship after political independence has also rapidly increased. Now recognizing the role of entrepreneur in the economical development the entrepreneurship development programmes are being conducted by various promotional agencies at different level. Hence, the available entrepreneurs can be classified based on numerous grounds as shown by the following chart:

India entrepreneur works in peculiar physical, legal and economic conditions. The basic features of Indian entrepreneur may be listed as under: -
A. Entrepreneurial Qualities: Imitative, Fabian and Drone;

B. Segment of business activity: Trading; Industrial, Agricultural and export-import;

C. Forms of Business: Sole, Partnership, Corporate (Public Sector; Private Sector and Joint Sector) Cooperative, Joint family business;

D. Entrepreneurial Instincts: Inborn and developed (I) Subsistence (II) Trader (III) Innovative (IV) Progressive (V) Greedy (VI) Wavering;

E. Need and level of Technology used in the enterprise: Technical and non-technical;

F. Motivation: natural necessity of the profession, promoted and encouraged, assisted and Spontaneous;

G. Growth: Growth-Oriented; and out come of technological advancement;

H. Stage of Development: First Generation, Classical, Modern;

I. Skills and Profession: Professional, Non-Professional;

J. Sex: Male and Female;

K. Area of operation: Urban, Rural, National and International;

L. Nationality: Foreign, Indigenous;

M. Education: Educated and uneducated; and

N. Ownership: Private Sector State-Sector and co-operative sector.

IDBI has also classified Indian entrepreneurs on the following basis:

1. Socio-economic background.
The number of trained entrepreneurs is rapidly increasing in India in recent years due to broadening horizons of entrepreneurship opportunities, institutional assistance and governmental policies. It need be noticed that even the gap of population increase and employment opportunities is helping entrepreneurship creation.

Factors affecting growth of entrepreneurship in India:

Entrepreneurship promotion is the concern not only of the government but also of the planners, the individual because it is essential for growth, economic prosperity, improvement in quality of life and raising the standard of life. The factors which influence the growth of entrepreneurship may be listed hereunder:

1. Prevailing basic environment such as economic, social, political, financial, infrastructural, religious, cultural, natural, industrial, entrepreneurial, managerial, technical and legal.

2. Government policies and strategies regarding the promotion of entrepreneurship.


4. Two world wars, which forced the colonial governments to encourage the local industries in order to meet the military needs during war personnel.

5. The advent of political freedom in 1947.

6. The operation of Five Year Plans since 1951.

7. Size, type, occupation, financial and political status of the family.

8. Contacts and kinship network of the entrepreneurs.
9. Regional influences and forces.

10. Advent of entrepreneurial education and training.

11. Establishment of development banks at central, state and regional level.

12. Establishment of entrepreneurship development institutes at both Central and State level.

13. Availability of capital subsidy, fiscal and financial incentives, concessional finance easy and ordinate supply of entrepreneurial finance.


15. Introduction, absorption and induction of new technology.

16. Creative response from the society in the form of demand and respect to the entrepreneurial community.

17. Better entrepreneurial locations.

18. Increasing awareness due to entrepreneurial revolution.

19. Castes and social stratification.

20. Increasing foreign collaborations in industrial, training and commercial entrepreneurship.

Is the present environment congenial for the growth of native entrepreneurship in India? In the words of A. Bagchi 'European entrepreneurs dominated the Indian economy and gave no scope for the promotion and development of native entrepreneurship in India.' But some entrepreneurial communities such as Parsis, Gujarathis, Marwaris and baniyas ventured in trading, industrial and commercial entrepreneurship despite the stiff government check and cut-throat competition. The achievement and motivation moved Indian

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230 A. Bagchi ‘European and Indian Entrepreneurship in India’, Leach Publications, L-11, Green Park, New Delhi-16.
entrepreneurs. In brief, the share of Indian entrepreneurship was less but meaningful before 1947.

After the attainment of political freedom in August 1947, the entire environment changed rapidly and gave a throbbing encouragement to entrepreneurial growth. The basic operational environment as mentioned above is constantly improving. Thus, the environment is congenial today and it is likely to improve in successive Five-Year Plans. Hence, the major task ahead is to improve the environment so that entrepreneurship in future India could flourish like Japan, USA, England, USSR and Paris etc.

Role of Entrepreneurship in Indian Economy: -

Economic development means the material well-being of the people and prosperity. The entrepreneur takes the risk of innovative enterprise to produce any article or service which is for the material well-being of the society, increase the income (per capita) and national products (GNP). It raises the standard and quality of life of the people. It is the process of materialistic upward change resulting in the GNP and per capita income. The entrepreneur plays a role of a catalyst in the process of industrialisation and economic growth. J. Schumpeter once commented that the rate of economic growth of a country depended on its rate of innovations which, in turn, depends upon the distribution of entrepreneurial talent in the population. Technical progress alone cannot lead to economic development, unless technological breakthroughs are put to economic use by the entrepreneurs. The entrepreneur is the person who puts the capital, labour and technology to an organised enterprise. The entrepreneur helps in formation of capital, improves per capita income, generates employment, makes balanced regional development possible and motivates further creation of entrepreneurship in the economy. “The development does not occur spontaneously as a natural consequence when economic conditions in some sense are right. A catalyst is needed and this requires entrepreneurial activity to a considerable extent, the diversity of activities that characterises the rich countries
An entrepreneur energises the economy and rejuvenates the establishment of projects that make the economic structure for economic growth of any country.

The entrepreneurial role in Indian economy may be briefly stated as under:

1. It disseminates relevant and useful information of viable areas of operations.
2. It assists the new entrepreneurs in project planning.
3. It promotes industrialization in rural and backward areas and hilly regions by canvassing the benefits being offered by the government in these areas.
4. It helps in solving socio-economic disparities and strengthens the process of socio-economic growth.
5. It broadens entrepreneurship creation and rehabilitation.
6. It helps in creating favourable entrepreneurial environment for the promotion of tiny, small, ancillary, cottage and village industries in industrially backward areas.
7. It creates necessary infrastructure with locally available resources by creating industrial Estates and S.T.E.Ps.
8. It creates ‘Entrepreneurs Schools and entrepreneurial spirit’ for development of new entrepreneurs.
10. It helps in guiding the future of industrialization growth rate.

Thus, entrepreneurship development is proving a boon to small entrepreneurs, a bonanza for backward areas and no-industry districts, a vehicle of socio-economic prosperity, a panacea to women entrepreneurs, an effective

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2 30a Meir and Baladwin: Economic Development, p. 299.
sources of avenues for the government, unique opportunity for big and innovative corporate entrepreneurs. Entrepreneurship development is transforming the small entrepreneurs into medium and large-scale entrepreneurs. Hence, it is playing a catalytic role in various sectors of the national economy.

**Sources of Entrepreneurship in India**

It is an important and pertinent problem to be investigated. The overview of Indian trading, commercial, industrial and professional society gives an idea about the major sources of entrepreneurial supply in India. These sources of entrepreneurial supply may be divided into the following two broad categories for the purpose of clarity and better understanding.

1. **Foreign sources of entrepreneurship supply.**

   The entrepreneurial history of pre-independence India reveals that the supply of foreign entrepreneurship suddenly increased with the establishment of British rule and coming of East India Company in India. Bombay and Calcutta began to flourish as the big "trading posts". British Government re-arranged the entire economy to suit their imperial needs and introduced the factory system accordingly. They laid down the foundation of large-scale entrepreneurship by setting up jute mills in West Bengal, cotton textile mills at Bombay. But they did not provide any opportunity to the native entrepreneurs like Parsis, Marwaris, and Gujarathis etc. to participate in big industries like ship-building and navigation etc. but this supply of foreign entrepreneurship is still in continuance due to good political liaisons. It is a pleasing experience that the ancient notions of caste based entrepreneurship is vanishing.

2. **Indigenous sources of entrepreneurship supply.**

   The sporadic studies on the rise of small-scale entrepreneurship into large-scale entrepreneurship in India reveal that trading, commercial and industrial entrepreneurship of high order is found in entrepreneurial elites belonging to various social communities. According to R.A. Sharma the predominant source of entrepreneurial supply in India is still the Baniyas,
Chettiars, Parsis, Hindus and Jain community. But other springs of entrepreneurship of significance are the Sikhs, Khatris, Aroras, Suds Brahmins including Kashmiri Brahmins, Kayasthas, Sindhi Hindus, Rajputs, Jats and Muslims’. Dr. Sharma has undertaken two studies on ‘entrepreneurial change in Indian industry’\(^2\) and ‘entrepreneurial performances in Indian industry’\(^2\). Dr. Sharma believes in the cosmopolitan diffusion of entrepreneurship. According to him, the professional class consisting of business executives, engineers, doctors, government servants, technocrats, landlords, contractors, share-holders, consultants, big farmers has started to venture in industrial and commercial entrepreneurship. The interest in professional education is rapidly increasing and expanding since two decades in India. Khatris have deep allurement for medical education, Baniyas and Brahmins for technical education, law, accountancy and business management. Thus, entrepreneurship is socially, occupationally and geographically dispersed. The possibilities of entrepreneurship development among the women, educated unemployed youths, scheduled castes, scheduled tribes, artisans, farmers and other socially depressed and economically backward communities have tremendously increased. The entrepreneurship development programmes have been producing an adequate number of fabricated entrepreneurs every year through entrepreneurial education and training. Hence, the indigenous sources of entrepreneurship supply are constantly swelling up after 1972 in India.

According to Monopoly Enquiry Commission Report, 1964, Marwaris have promoted community banks for mutual finance, inter-community institutions for adjudicating commercial disputes and community hotels for catering food to touring entrepreneurs. In fact, this sort of support to encourage entrepreneurship is something unique in Marwari community. It is why the Marwaris had surpassed all other communities including the Parsis and Gujarathis in terms of assets accumulation. They were controlling sixty percent of the assets in Indian private sector industry. Other communities like Chettiars of

\(^2\) R.A. Sharma, Entrepreneurial Change in Indian Industry, Sterling Publication, L-10, Green Park, New Delhi-16.
Tamil Nadu, Coimbatore and Madurai, the Baniyas of U.P., Haryana and Delhi, Punjabi Khatris, Bengali entrepreneurs and Sindhis of Delhi have shown vigorous industrial entrepreneurship after independence. Indeed, entrepreneurship in India has blossomed whenever conditions are favourable and conducive’. Similarly, H.T. Parekh in his study on ‘Entrepreneurship in India ’ has concluded that ‘New Entrepreneurs have come from several main sources. They are the mixed bag of diverse elements. Farmers, Zamidars and landlords are going into industry after drastic land reforms.

According to the economic times dated October 30, 1987, ‘ all over the world, the role of family dynasties in large joint stock enterprises has gradually been reduced except in India. The recent report on Indian private enterprises highlights the unique contours of big enterprise in India. Multinational affiliates professional managers and joint hundred families are managing the top 100 companies (according to sales). The Indian business environment is still dominated by families. The managing agency system also helped the creation of large industrial family dynasties. The process creating an industrial entrepreneur was quite different in India. Moneylenders, traders and merchants were the classes from which industrial entrepreneurs emerged, irrespective of religion or region. Even the Muslim group who changed their occupations traced their roots to trade. The 1950s and 1960s was a period of tremendous industrial resurgence in India. Today, there are so many new entrepreneurs, many of them who do not come from a trading or money lending background. This shows a positive trend in the direction of entrepreneurship promotion.

Problems before the entrepreneurs: -

The Indian entrepreneurs face many problems in starting and sustaining an enterprise. The inherent, climatic, socio-political and economical problems have not shown any sign of being tackled and most of the times it result in the closure of these units. 9.87% of small scale units (SSIs) including 31% within

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the five years of commencement were closed down till 1988.\textsuperscript{2,33} It shows that one out of every third ssi was closed down for one or the other reason. Some of the problems are listed hereunder.

1. **Problems of finance and credit:** Non-availability of timely and adequate financial assistance is one on the main problems the Indian entrepreneur faces. It dampens the entrepreneurial spirit. The role and contribution of DFIs have been less than satisfactory. Even if the assistance is sanctioned by the DFIs, it is not disbursed in time nor the officials of DFIs are courteous to expedite the process of disbursement of such financial assistance. The cost implications of distress and emergency provision of working capital have its impact on the economic viability and desirability of continuance of the project. To tide over the problem, a High Level Committee headed by S. L. Kapoor, in its June 1998 report made as many as 126 recommendations including: (i) delegation of more powers to branch managers to grant ad hoc limits; (ii) simplification of application forms; (iii) freedom to banks to decide their own norms for assessment of credit requirements (iv) opening of more specialised bank branches (v) enhancement in the limit for composite loans to Rs. Five lakh; (vi) strengthening the recovery mechanism (vii) banks to pay more attention to the backward states; (viii) special programmes for training branch managers for appraising the projects; (ix) banks to make consumer grievance machinery more transparent and simplify the procedures for handling complaints and monitoring thereof.\textsuperscript{2,34} Budget (1999-00) speech of the finance minister contained many encouraging signals.

2. **Availability of raw material.** Majority of the entrepreneurial skill begins with the small-scale enterprise which largely depend on the raw material available locally. However, the raw material supplied locally is not enough to keep the operation continuing. In addition, the intermittent supply hampers the continuous process. It has double exploitation i.e. at the time of supply of raw material at high prices and thereafter purchase of finished goods at lowest prices.

\textsuperscript{2,34} SIDBI Report on Small Scale Industries Sector, 1999 pp. 101-02.
3. **Machinery and the other equipment:** The entrepreneur has the inherent problem to get obsolescent machinery or go through the lengthy procedure of buying latest machinery for the operations. It has its own problems of settling foreign exchange, mode of payment, guarantee after sale service and spares etc.

4. **Under utilisation of the capacity:** The capacity utilisation was only 41% in electrical machinery and parts, 58% in leather products, 60% in transport equipment and parts, 30% in miscellaneous manufacturing industries and 32% in metal products and the average capacity utilisation was merely 48% in 1987-88. It shows that the half of the capacity is not utilised.

5. **Problems of Marketing:** The entrepreneur, at least in the new beginning do not have the marketing organisation and consequently their products compare unfavourably with the quality of the products at national or international level, causing the inherent weaken in the field of competitive disadvantage.

6. **Problem of sickness:** The problem can be viewed with respect to the existence of a large number of sick units, which are non-viable, and the rehabilitation of potentially viable units. There were 3.06 lakh sick SSI units as on March 31, 1999 which had obtained bank loans and 4313 crores of rupees were blocked in these units out of which loan of Rs. 3746 crores was considered blocked in economically non-viable units. The rehabilitation of sick units is a costly proposition.

7. **Absence of accurate and up to date database:** Another wake link in the chain is the inadequate database for the new and emerging/diversifying entrepreneurs. The statistics are either not up to date or are incomplete on account of variety of reasons which have been taken as understood so as to ward of the unnecessary material from this study. The number of new units, value and quantity of goods or services produced and employment are subject to limitations is based on partial returns. It is also a reality that if an enterprise is included in a

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study, it may not be in existence by the time the report of the research study is released.

8. **Other problems:** The entrepreneur (diversified or a new venture) faces a host of other problems. Since the entrepreneurship is still based on the principle of family business, it has the problem of inefficient management, non-availability of cheap power, unchanging and unresponsive production pattern, burden of local taxes, competition from MNCs and international trade barriers which are more political than economic. It need be recorded that in 1988 (the latest data available) 1.48 lakhs units were closed because of finance and marketing problems.\(^{236}\) These financial and marketing problems are not being attended by the Government even.

9. **Impact of economic reforms and globalisation:** The decade of nineties has been marked by considerable deregulation of industrial economy through delicensing and dereservations, ‘Opening up’ the industrial sector to both internal and external competition, lowering of tariffs, removal of quantitative restrictions etc. These reforms had an adverse effect on the entrepreneurial spirit and skill. The globalisation increased the competition, which though brought the quality awareness made many new entrepreneurs to have a second thought before launching an enterprise. This is clear from the fact that the cumulative annual rate of growth have declined in the period of nineties vis-à-vis the pre-reform years. As the country dismantles its quantitative restrictions in accordance with commitments made to the World Trade Organisation (WTO) the problems for the entrepreneurs are likely to accentuate further as they will be increasingly exposed to competition from foreign goods (often cheaper and qualitatively superior) and from MNCs. They have started feeling the heat as many cheap Chinese goods have started eating into their market shares.

The All India Financial Institutions (say the development banks) are free to offer interest rates on term deposits mobilised by them without a ceiling fixed by the RBI or link it to the rates offered by SBI on similar institutions. The

sanctions and disbursements by AIFIs have registered a high growth rate in Dec. 2000. The sanctions increased by 17.5% and disbursements by 12.4% during April –December 2000. The sanctions made by AIFIs declined in 2001-02 by 32% as compared to the previous year. Disbursements declined by 16.9% during this period.

10. **Problems of administered price policy in some areas of the public sector:** Private sector operates with the aim of profit or the ‘economic viability’ – said in sober sense. The public sector has some of the areas where economic viability is not the criterion. It is either the economy’s need or the political and social considerations for running of an enterprise. It may not be profitable at all. In this manner, the grants or subsidised pricing policy is a bane on the laissez faire policy. This discourages the entrepreneurial spirit. The state monopoly in certain sectors stops the creativity in the entrepreneurial adventures. The public sector enterprises are varied and price policy is determined by the objectives which they are expected to serve. Even under conditions of monopoly, the objective of the pricing policy of a particular public sector enterprise may not be profit maximisation. Indian Railways, Indian Airlines Corp., State Electricity Boards are public monopolies, which operate in seller’s market.

11. **Problems relating to the planning and construction of Projects:** These problems may be (i). Selection of site was not based on detailed soil investigation; (ii). There were serious omissions and understatements of several elements of the projects; (iii). The actual costs of projects far exceeded the original estimates; (iv). The projects took much longer time to complete than originally envisaged; and (v). The projects often embodied inappropriate technology or product-mix or marketing strategies.

12. **Problems relating to Labour, Personnel and management:** The recruitment, promotions and assignment of duties are done not as per job specifications but on the basis of political interference in the day to day working
and it has demoralising effect on the management and other personnel of these enterprises.

13. **State's planning of development of non-priority industries and wastage of resources:** One of the biggest problems of the entrepreneurship development is that the manufacturing activities are regulated by the state policy through various legislation. The targets are not always set as per need of the people or the economy or the viability or the desirability. Political will are found lacking at more than once and the decisions are subsequently found unsuitable and thus, abandoned midway. This affected the industrial climate. This effects the entrepreneurial growth as well.

14. **Sharp rise in manufacturing costs:** With the rising cost of life, the cost of inputs is very high in any social walk of life which makes the entrepreneur to reconsider the project and its implications carefully. It is good not to tread the doubtful path instead of abandoning it midway.

15. **Trade deficit and taxation policies of the State:** The governmental policy on economic planning and taxation has direct bearing on the entrepreneurial spirit.

16. **Industrial disputes and sickness:** With the increase of size of operations the labour intensive enterprises have the problems of differences and conflicts between the owners and employees regarding wages, bonus, retrenchment and other issues frequently emerge. This necessitates provision of Works committees, Arbitration Boards, etc. for settlement of industrial disputes.

The problems of entrepreneurs have to be taken along with the problems of industrial development as a whole which are inherent in the process of industrialisation. These problems are listed as under:

1. **There is big gap between targets and achievements.** Except 80s the targets achieved fell much below the goals set? In some case it was as high as
20%. Rakesh Mohan\textsuperscript{1,17} observed, "The average industrial growth rate achieved in about forty years is around 6.2% against the expected 8%. The higher growth rate is associated only in primary and tertiary sectors, in the rest of sectors it is 1.2% to 1.4% lower annual growth in the per capita GNP on a cumulative basis over thirty-five to forty years.

2. \textbf{Under utilisation of the capacity}. For one or the other reasons the capacity utilisation is below the projected figure. There may be a variety of factors for this under-utilisation of the capacity. Even the limitation of defining the concept is one of the reasons. The estimates of under-utilisation vary from 20-30\% to 60-70\%. The presumption of 50\%-60\% percentage of utilisation is very near to the reality. The attributable causes are: technical, non availability of raw material, frequent power failures, governmental policies, labour disputes and demand factors etc.

3. \textbf{Performance of public sector}: During the plan period there has been phenomenal growth in public sector, performance of which cannot be judged by the index of profit because the public sector operates for different objectives. However, the cumulative huge losses incurred by the major area of the public sector have forced the government to opt for the dis-investment for making the sector more accountable and economically viable. The over-protectionism to public sector amounts to indirect subsidizing price of the public sector at the cost of the private sector.

4. \textbf{Growth of regional imbalances}: Industrialisation remained limited to a few states such as Maharashtra, Gujarat and Tamil Nadu (39.3\% of total factories, 41\% of invested capital and 43.3\% in output value of the industrial sector in India in 1996-97).\textsuperscript{1,18} Economic growth is directly related with industrial growth. It is, therefore illogical to argue that the process of economic development has more or less bypassed a number of poor States.

\textsuperscript{1,17} Rakesh Mohan, "Industrial Policy and Controls", in Bimal Jalan (ed.). The Indian Economy: Problems and Prospects (New Delhi, 1992), p.107
\textsuperscript{1,18} Tata Service, Ltd., Statistical Outline of India, 2000-01 (Mumbai, 2000) Table 164 p.146.
5. **Industrial sickness:** The industrial sickness has eaten into the resources of our economy. It is due to bad and inefficient management, whose policies are not guided by cost considerations. In the regime of protection from international competition, industries have tended to be established at sub-optimal capacities, leading to high cost industrial structure. Technological and qualitative improvement have not found favour with the government, which led to the emergence of sickness in certain industries particularly when market conditions tend to generate a measure of competition within the economy.\(^{119}\) There were 3.09 lakh sick industrial units involving an outstanding bank credit of Rs.19,464 crores, in March 1999.

6. **Emerging challenges:** Being one of the founder members of the World Trade Organisation (WTO), India has withdrawn all quantitative restrictions on import resulting in intense competition with imports forcing many industrial units to close down. The pressure of competition is harsher on new entrepreneurs who cannot withstand competition with resourceful rich and technologically advanced multinational companies.

Of late, the Government of India and the State Governments have started considering economic viability of an enterprise as an important factor for starting an enterprise at state expense. Even the state departments, which are not self-sustaining, are being closed down or at least prone to form a restricted budget and functional area and operational influence.

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\(^{119}\) Govt. of India, Planning commission, Sixth Five Year Plan, 1980-85, p.260