CHAPTER I
INTRODUCTION

Entrepreneurship is considered as one of the important determinants of the economic development of a country. It has been felt that the development of entrepreneurship through small scale industries is ideally suited to India's socio-economic conditions for the reasons manifold.

In the first place, small scale industries facilitate the tapping of resources like capital, labour, raw materials etc, which would otherwise have remained unutilised. They can also mobilise rural savings and channelise them to productive ventures. Secondly, since these industries are normally labour-intensive in character, they create more employment, which is very important in a country like India with surplus manpower. Average investment per worker in small scale industries is much less when compared to that in large scale sectors. Thirdly, small scale industries broaden, strengthen and diversify the industrial structure by providing a wide range of goods. Fourthly, many of the small scale industries produce articles for import substitution and for export, both resulting in the saving or generation of foreign exchange. Fifthly, they serve as seed beds and nurseries of entrepreneurial and managerial
talents. In an entrepreneur-deficient nation like India, the importance of this role of small scale industries need not be overstated. Again, these industries can bring about industrial dispersion and balanced growth. A predominant trend in the industrialisation of India is the concentration of industries in a few centres, giving birth to a number of social and economic problems. This trend, to some extent, could be located at centres away from industrial agglomerations. This would bring about a more balanced growth and modernisation of the remote regions and reduce the process of migration from rural to urban areas.

There appears to be a general belief that real progress ultimately depends on industrialisation. Since India cannot raise all the capital required for establishing so many large scale industries quickly, it is only through small scale industries that one can expect to find a solution to the problems of poverty, illiteracy and unemployment. It is also felt that growth of the small scale industries will ensure better social justice, since economic power is not concentrated in a few hands, as in the case of the large scale sector. It is because of these factors, the small scale sector assumes importance.

The term 'entrepreneurship' like many other economic terms, has long been a controversial subject. A number of definitions have been given by different economists
reflecting the various aspects of entrepreneurial activities. Cantillon and Knight for example have emphasised the 'Risk bearing' aspect of entrepreneurship, while Frederic Herbinson and Marshal related entrepreneurship with management; the function of which is to co-ordinate, administer and control the activities of the firm. Schumpeter was the first to associate entrepreneurship with 'innovation', which may be brought about by introducing a new commodity, a new technique of production, a new form of organisation, a new market or a new source of raw materials. In his view, the entrepreneur is an innovator who undertakes a new combination of factors of production.

Most of the definitions of entrepreneurship have been given by the economists of the developed countries with a restricted view in regard to entrepreneurial activities. They have ignored the fact that the concept of entrepreneurship changes with the stage of development of a country and scale of operation of an enterprise. Schumpeterian entrepreneurs have not emerged in developing countries, particularly in small scale industrial sector and even if somebody emerges, they may not do well due to many socio-economic factors. The immediate need for these countries is to have initiative entrepreneurs in large number who can imitate the technical know-how from developed countries and employ the same on smaller scale after proper
modification suitable to their business environment. In a developed country, entrepreneur will have to perform a few of the entrepreneurial functions while in an underdeveloped country, an entrepreneur would have to perform a multiple range of functions for the successful operation of his enterprise. Likewise, in a large scale industry where management often divorces itself from ownership, an entrepreneur may concentrate only on few entrepreneurial functions and the rest may well be delegated to other executives. But in a small scale industrial sector, an entrepreneur has to look after several functions for the successful operation of the unit.

In developing countries, the concept of entrepreneurship should not be confined only to innovation. In these countries, setting up of a small unit and managing it properly are in no way less than entrepreneurial work during the early stage of industrial development. To quote Wallich - 'The Widening of horizons leads, after all, to something resembling "innovation", but the continuation of the process, once started, is another matter'. One can hardly say that in less developed countries, "innovation" is the most characteristic feature. The process is better described perhaps as one of the assimilation. Thus to organise a new industry in a less developed country is an act of entrepreneurial "initiative".
Peter-Kilby and H.N. Panthak have pointed out that in underdeveloped countries, entrepreneurship, encompasses a lot of promotional, organisational and managerial activities. However, some of these activities, which are not very important can safely be delegated to subordinate persons.

Entrepreneurship in small scale industries involves a whole range of aptitudes like capacity to bear risks, ability to organise and manage various factors of production, and confidence and competence to meet unforeseen and adverse situations. In this sector, entrepreneurship is co-extensive with starting of a small unit.

Need for the Study

In the past, certain studies dealing with the various aspects of industrial entrepreneurship have been made. For example Berne (1960), Bhatia (1974) investigated the background of a group of entrepreneurs, the way in which they made the transition to industry, and the problem they faced in establishing and building their enterprise. Singh studied the socio-economic background of the entrepreneurs, the main motivational forces and the impact of the Governmental assistance on entrepreneurship.

Andrew (1955), Laub (1955), Gedigil (1959), Medbora (1965), Kling (1967) studies have tried to analyse the
entrepreneurial growth in certain communities over a long period of time Sharma (1980), Gaikwad and Tripathy, (1970), Pathak (1972), Oomen (1972), Ashis Nandy (1973), Singh (1983), Rao (1986) have discussed the entrepreneur development and its varied aspects. But these studies are historical, and inadequate in respect of entrepreneur performance in the various managerial field such as finance, personnel, production and marketing management; of course, with two exceptions, Bhanusali 1987 and Gupta 1987s. But, these studies are exploratory in nature and lack of statistical tools employed to test the significance of background of entrepreneurs and performance indicators leads to the result uninterpretable.

Further, most of these studies have concluded that in India as a whole, there is no dearth of entrepreneurial talents. This may be true in a macro level. If one considers this at micro level, there is a lot of scope for varying regional disparities, because of political changes, locational advantages, concentration of infrastructural facilities and government assistance which have ample influence in entrepreneurial development in different regions. Hence, much attention needs to be given for regional aspect of entrepreneurship development. Such a study is also useful, as it can offer useful policy suggestions. To over come this limitation to some extent
and to identify the bottlenecks inhibiting development, the present study is a maiden attempt, in this direction.

Statement of the Problem

Unlike other parts of India, the Union Territory of Pondicherry was under the French rule till 1954. The territory was industrially backward and the industries were languishing for want of encouragement as there was no industrial organisation or government assistance to promote industries. In fact, the rigorous control exercised by the French Government affected the growth of industries. Further, the industries had to compete with foreign goods which were imported. After attaining independence, Pondicherry was no longer a free port. Keeping in view the urgent need of industrialisation Indian Government laid down its industrial policy, infrastructure facilities and incentive to small scale entrepreneurs in the Second Five Year Plan. As a result of the government efforts, the growth of small industries after independence has in fact, been impressive in Pondicherry. The number of units increased from just 85 in 1961-62 to 3201 in 1989-90. The investment increased from just Rs. 6 lakhs to Rs. 6619.5 lakhs and the total number of labour employed has increased from 425 to 21,857, during the aforesaid period. Though the data in this regard is impressive, it will shed light only
on the quantitative performance of entrepreneur and not a qualitative one. Further, this mushroom growth of entrepreneurs, increase in the level of investment and employment during the aforesaid period pose the following questions which need the effective analysis of the qualitative performance of entrepreneurs in this region.

Research Questions

What roles were played by the French and Indian government to promote the industrial entrepreneurship in Pondicherry?

What factors determine the emergence of entrepreneurs in this region?

What growth and development have been achieved by the entrepreneurs since their inception of the industrial unit?

Does the performance of entrepreneurs in the various managerial field differ among themselves.

The answers for the above questions will shed light on the qualitative performance in this region which in its turn will suggest measures for the healthy growth of entrepreneurship.
Objectives of the Study

1. To trace the origin and growth of industrial entrepreneurship in Pondicherry region.

2. To identify the factors influencing entrepreneurs in setting up of their industrial units.

3. To measure the performance of the entrepreneurs in various managerial fields such as finance, personnel, production and marketing.

4. To find out whether any relationship exists between entrepreneurial performance and the factors viz., nature of industry, level of investment, entrepreneurs' educational-level and their experience and

5. To suggest measures for the healthy growth of entrepreneurship in Pondicherry region and to point out the policy implications thereof.

Hypotheses

To evaluate the entrepreneurial development, the following hypotheses was formulated:

1. The emergence of entrepreneurs is significantly influenced by entrepreneur's background variables such as age, education, experience, economic status, parental occupation and spatial origin.
2. The performance of entrepreneurs is significantly influenced by (i) industrial background variables such as location, year of establishment, nature of industry and level of investment and (ii) entrepreneur's background variables.

METHODOLOGY

Area of the Study

The Union Territory of Pondicherry has been chosen for the present study. This selection was prompted by the presence of a number of special features which have a direct bearing on the entrepreneurship development. Among them the factors that deserve special mention are firstly, the Union Territory of Pondicherry was under French rule till 1954. Secondly, Pondicherry, the capital of this tiny territory, is the biggest among the four regions in terms of area and population which accounts for about 80 per cent of the industries located in the territory. Thirdly, the Union Territory has experienced a considerable degree of urbanisation and infrastructure facility for industrial development. Lastly, the Union Territory of Pondicherry is one of the industrially backward region among the different states and Union Territories. As the region has been experiencing rapid industrial growth in recent years, it is felt that union territory of Pondicherry is ideally suited for a study of industrial entrepreneurship.
### Table 1.1

**Industry-wise Distribution of Sample Units**

<table>
<thead>
<tr>
<th>Type of Industries</th>
<th>NUMBER OF PERSONS EMPLOYED</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Less than 5</td>
<td>5-10</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Agro</td>
<td>120 (9.88)</td>
<td>66 (5.43)</td>
</tr>
<tr>
<td>Textile</td>
<td>144 (11.86)</td>
<td>80 (6.59)</td>
</tr>
<tr>
<td>Forest</td>
<td>98 (8.07)</td>
<td>109 (8.97)</td>
</tr>
<tr>
<td>Chemical</td>
<td>102 (8.40)</td>
<td>81 (6.67)</td>
</tr>
<tr>
<td>Engineering</td>
<td>151 (12.60)</td>
<td>157 (18.10)</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>87 (6.69)</td>
<td>15 (1.15)</td>
</tr>
<tr>
<td>Total</td>
<td>702 (57.60)</td>
<td>508 (41.69)</td>
</tr>
</tbody>
</table>

1. Indicates total number of units in the population.

2. Indicates the number of sample units taken from the population after giving stratum weight.
Selection of Sampling Units

It is generally believed that the performance of an entrepreneur could be analysed reasonably, if he is engaged in the industrial operation at least for a period of 5 to 6 years. For this purpose, a sample of industrial entrepreneurs, who were registered up to 1984 in Pondicherry region, was chosen. As such, there were 1457 industrial units, which formed the universe for the present study.

As a detailed study of all the 1457 units was difficult and time-consuming and with a view to make the sample unbiased and fully representative, stratified proportionate random sampling method was adopted and a sample of 120 units representing various industrial entrepreneurs were taken for the study.

As a first step, the entire universe (1457 units) was classified into six categories, namely, Agro, Textile, forest, chemical, Engineering & Miscellaneous industries. A sample of 120 was proportionately distributed according to stratum weight. In the second step, the selected industries were further classified into three categories on the basis of number of persons employed, in order to have due representation of the different sizes within the industry. Ultimate units were drawn on the basis of random sample method (vide Table 1.1). Thus two variables namely type of
industry and number of persons employed were considered for the purpose of drawing a sample size of 120 from the universe of 1457.

Collection of Data

A tentative schedule of information was prepared initially on the basis of the objectives and hypotheses of the study. Then a tentative frame work of study was prepared and discussed with a number of persons in academic, industrial and other fields. A draft questionnaire was then prepared and pretested through a pilot survey. The final questionnaire was then canvassed and completed personally after discussion with all the respondents. The questionnaire contained the following aspects.

1. Personal details and background factors of the entrepreneur which includes age, caste, education, training, experiences and family background,

2. Data relating to the location of unit, form of ownership, year of establishment, size of investment and labour employed,

3. Performance of the entrepreneur in various managerial fields, namely finance, personnel, production and marketing and

4. Views of entrepreneurs relating to the problems in various issues and suggestion for improvement.
Besides, discussion with a host of knowledgeable persons including academicians, bankers, government officials, promotional agencies engaged in the development of entrepreneurship in small scale industries proved quite helpful in assessing the performance of entrepreneurship in small scale sector.

Operational Concepts

1. Entrepreneurship: Entrepreneurship in small scale industries involves a whole range of aptitudes like capacity to bear risks, ability to organise and manage various factors of production and confidence and competence to meet unforeseen and adverse situations.

2. Small Scale Industrial Unit: The concept of small scale industries in India has undergone periodic changes from 1955 when it was first defined by the small scale industries board as "a unit employing less than 50 persons, if using power, and less than 100 persons, without the use of power, and with capital assets not exceeding Rs.5 lakhs". Since this definition was found to be rather narrow because of its limitation of the number of persons employed, the ministry of commerce and industries revised the definition of small scale industries to "include all industrial units with a capital investment of not more than 5 lakhs, irrespective of the number of persons employed". To examine the adequacy of the prescribed investment limit of Rs.5 lakhs in fixed
assets (land, building, machinery and equipment), the small-scale industries board appointed a sub-committee to raise the capital limit to Rs.10 lakhs - which was not accepted by the Government of India in 1962. However, the ministry of Industries raised this limit to Rs.7-5 lakhs in October 1966. This limit was further raised to Rs.10 lakhs in May 1974 and to Rs.20 lakhs in 1980. Through the budget proposals of 1985-86, it was increased to Rs.30 lakhs and in 1986-87 it was further raised to Rs.35 lakhs. Since the sample units existing before 1984, were considered for the study, small scale Industrial units was defined as that an industrial unit, having a capital of not more than Rs. 20 lakhs.

3. Entrepreneur in a Unit: In the case of proprietorship concerns when ownership and control are vested in the same person, identification of an entrepreneur or the decision maker is fairly a simple matter. But in the case of partnership and companies, it is necessary to have an acceptable form for identifying the person (or persons) who perform entrepreneurial functions. As the data for this part of study are collected through canvassing of schedules among sample entrepreneurs, use is made of the concept of 'major entrepreneur' and the entrepreneur in an establishment is identified with an individual who has ownership interest and exercises decision making power.
4. **Historical Factors**: Historical factors relate to the incidents, events, happenings and accidents of historical origin in the study area for a period since 18th century. The data are arbitrary as it is not possible to limit these factors to specific events within this period. Mention is made of the conservation and lack of vision on the part of rulers to industrialise the region.

5. **Political Factors**: Political factors refer to the attitude and commitment of the rulers or government (French/British/Indian) to the people's welfare.

6. **Social Factors**: Social factors refer to the interaction and behaviour pattern of background variables of entrepreneur as influenced by their structure and values.

7. **Motivational Factors**: Motivational factors were grouped into two. (1) Internal factors include high rate of return, previous experience, social prestige, sense of independence and lack of gainful employment. (2) External factors includes Government facilities and assistance Financial assistance, and the Union Territory of Pondicherry has all infrastructure facilities.

8. **Social Origin**: Social origin were classified into forward, backward and scheduled caste as classified by the Government.
9. Education: The entrepreneurs were classified into four categories on the basis of their educational qualification. The categories are primary education, secondary education, college level, technical education. It is further classified as lower level education (upto secondary), higher level (above secondary level) education.

10. Experience: Previous experience refers to any remunerative industrial activity in which entrepreneur engaged at least three years prior to the establishment of this unit.

11. Occupation: The entrepreneurs and their parents were classified into three categories on the basis of their occupation. The categories are industrial service, Business, (trading) and Others.

12. Location: Location of the units were grouped into industrial estate, industrial area and other than both the industrial estate and industrial area as classified by the Government.

13. Capital Employed: Capital employed was classified into 5 categories as investment below Rs.3 lakhs, Rs.3-6 lakhs, Rs.6-9 lakhs, 9-12 lakhs and Rs.12 lakhs and above. Further, it is classified into two categories as upto 6 lakhs (lower level) 6 lakhs and above (higher level) investment.
14. Industrial Unit: Manufacturing industries were classified into six categories according to the classification done by the government. Further, the first three categories namely agro, textile, forest were named as traditional industries and the others chemical, engineering, miscellaneous as modern industries.

11 Performance Indicators:

Entrepreneur is a person living and responding to social, economic and psychological environment. The development manifests through the decisions he takes while steering his unit, the ways he finds to face the odds and the courage with which he faces the challenges. In small scale industries, the entrepreneur and the unit are so unified that the development of the unit is the development of the entrepreneur.

A set of 13 criteria was evolved to measure the entrepreneurial development. Development is the personality being spread over a span of time. Time dimension was also introduced in these criteria.

1. Capital and its growth
2. Mandays and its growth
3. Production and its growth
4. Sales and its growth
5. Profit and its growth
6. Comparative study of capital and output
7. Comparative study of capital and profit
8. Comparative study of Labour and capital
9. Comparative study of Labour and output
10. Capacity utilisation
11. Product diversification
12. Marketing channel development
13. Marketing place development.

Growth rates of Capital, mandays, production, marketing and profit \((1,2,3,4,5)\) reflect overall growth and development of the entrepreneur since the time of inception of the units. Ratio analysis was used as efficiency indicators \((6,7,8,9)\) which reflects the efficiency with which each individual input is used in the production process.

While the levels of selected variables and meaningful ratios among them constitute one set of measures of entrepreneurial performance, rates of change \((6,7,8,9)\) over time may be considered to reflect trends in effectiveness of entrepreneurial decision making and thus to constitute another set of performance.

Keeping a constant watch on changes in demand, technology, product and market and acting thereupon
successfully are the qualities of an entrepreneur. An entrepreneur should be able to adapt to new market situation by diversifying his production either to satisfy the needs of the customers or to avail new opportunities of better utilisation of the production capacity of their units (10, 11, 12, 13).

**Statistical Analysis**

As the data are of both quantitative and qualitative nature, parametric as well as non-parametric tests have been used. Thirteen indicators were identified to measure the performance of entrepreneurs. Of these, for the first 10 indicators, annual average growth rate has been worked out for the 120 entrepreneurs individually using growth rate formula.

Statistical techniques such as analysis of variance (ANOVA), multiple classification analysis (MCA) and unweighted linear regression (ULR) were used in the analysis of the data.

**Analysis of Variance.** ANOVA is a statistical technique commonly used for studying difference among or between groups (independent variables) on one single dependent variable. In the present study ANOVA has been used to test (1) whether the perceived mean values are the same for different categories of entrepreneurs and (11) to test
whether the independent variables (background of entrepreneurs) are significant in explaining variations in the overall mean value.

**Multiple Classification Analysis.** The MCA is a new, easy to use, dummy variable multiple regression technique for examining interrelationships between several predictor variables and a dependent variable within the extent of an additive model. The MCA has been used as an analytical tool especially in sociological and psychological research and is yet to become well known in the analysis of entrepreneurship development. It is used in the present study, to examine the differences in background variables' influence on each of the performance indicators.

Unweighted least square linear regression (ULR) was also conducted on the entrepreneurs' performance taking all the 10 background variables. The value of independent variables were dummy coded.

**Chi-square Test.** Remaining 3 indicators were measured according to their level and direction of change supporting chi-square analysis.

**Limitation of the Study**

Data collection in small scale industrial sector is very time consuming. Small scale industry is almost one man show
and consequently, the entrepreneur is not normally in a position to spare time for any non-business activity due to his heavy schedule of engagement in his business activities. Because of this, it was necessary to make at least three to four trips to an individual unit to collect the required data. Particularly financial data could be obtained only after a lot of persuasion and assurance that they will not be disclosed and used for any non-academic purposes. However, the entrepreneurs discussed freely, the matters not related with finance for example organisational and motivational factors, their operational problems and opinion on policies and support system of government to develop entrepreneurship and their operational problems.

Correctness and accuracy of data in respect of cost and production suffer from doubts as the entrepreneurs have not maintained records properly. In the absence of any written records, the process of information supplied by the respondents suffer the vagaries of memory. The general tendency among the entrepreneur has been to delete production figures and inflate the cost items. Attempts have, however, been made to extract the correct information through informal discussion with them.

The study of entrepreneurship is inter-disciplinary in nature and therefore, is governed by many psychological, social, economic, political and geographical factors. But,
because of certain unavoidable reasons, only a few of the factors from this disciplinary and few performance indicators from various managerial fields, were taken for the present study. However, the other factors play no less important role in emerging and developing the entrepreneurs.

Organisation of Chapter Design

The entire study is divided into six chapters. The importance of entrepreneurship, the need for the study, statement of the problems, specific objectives of the study, hypotheses, research instrument and collection of data, operational concepts, performance indicators, statistical analysis, limitation of the study and organisation of thesis are presented in the Chapter One.

Following this introductory chapter the concept of entrepreneurs and review of works already carried out in this field are discussed in the Chapter Two.

Chapter Three reviews the programmes and policies for promoting industrial entrepreneurs.

Chapter Four deals with the factors determining the emergence and supply of entrepreneurs.

Chapter Five, deals with the performance of entrepreneurs with regard to finance, personnel, production and marketing.
The Chapter Six summarizes the discussion draws conclusions, offers policy suggestion and indicates the possible lines of further research.