

Chapter 3

Entrepreneurs in Rajasthan

3.1 Introduction

New business creation is a long and complex process in which one or more individuals endeavor to assemble various resources, human, technical and financial, necessary for the creation of a new enterprise. A new venture creation consists of three major phases.

These are:

- Incubation of the project by the founder,
- Preparation, (where required resources are gathered), and
- Start-up of the new enterprise.

Rajasthan is one of the states in India which provides numerous concessions and incentives to promote industrial entrepreneurship. Yet, the rate of industrial progress in the state remained sluggish. Rajasthanis are well-known for their entrepreneurial spirit. Indeed, a large number of leading industrialists in India hail from Rajasthan yet, the state still remains industrially backward.

The contribution of manufacturing or industrial sector towards the state's NSDP has been abysmally small. Most employment is provided by the agricultural sector rather than by the industrial sector. It is important, therefore, to identify the reasons as to why entrepreneurs start new business, their profiles in terms of socio-economic background and the nature of problems they face in starting their businesses. The rest of this chapter dwells on these elements.

3.2 Data Collection

This study is based on primary data, collected through a structured mailed questionnaire (Refer Appendix 8) from a sample of industrial units in Rajasthan. The sample was

chosen across the state of Rajasthan. As a result, the findings of the study based on the sample survey, can be said to be applicable to the entire state.

The target population was registered business enterprises. Three major sources were used to identify the universe. These were:

- list of enterprises in Rajasthan available at the online database of Bureau of Investment Promotion [71]
- list of medium and large scale industries available at the District Industries Center, Commissionerate of Industries, Government of Rajasthan,
- various directories such as Directory of Manufacturers Rajasthan Business Pages, Rajasthan Industries' Directory (Rajasthan Chamber of Commerce and Industry), Directory 2002 (Udaipur Chamber of Commerce and Industry) and Kothari's Industrial Directory 1996-97.

From the above sampling frame, 617 firms (Refer Appendix 9) were randomly selected and questionnaires were sent to them in four phases. Details are given in Table 3.1

Table 3.1: Details of Questionnaire Despatch

Phases	Questionnaire Despatch Date	Numbers Sent	Reminder Despatch Date	Numbers Sent
Phase 1	24 September, 2003	357	31 October, 2003	304
Phase 2	16 February, 2004	93	26 March, 2004	74
Phase 3	22 June, 2004	92	2 July, 2004	76
Phase 4	13 August, 2004	75	24 September, 2004	65
Total		617	Total	519

For the purpose of analysis the data collected were coded (Refer Appendix 10). In the following section, data is analysed and findings discussed.

3.3 Data Analysis and Findings

Out of 617 questionnaires despatched, not more than 579 reached the respondents. Despite remainders only 60 replies were finally received.

Analysis

All of these were taken as inputs for the study. The entire input data was subjected to suitable analyses. The findings are classified under the following heads.

- Profile of entrepreneurs
- Socio-economic background
- Reasons for starting a venture
- Problems faced in starting a venture

3.3.1 Profile of Entrepreneurs

Responses to question number 2, 3, 11 and 13 of the mailed questionnaire are analyzed here.

a. Year of establishment

Responses were received from firms established between the years 1922 and 2001. Mayur Uniquoters Ltd. was the oldest of the firms, which responded to the questionnaire. It was established in the year 1922. The youngest firm, which responded, was Rustagi Plastic Industries (P) Ltd, established in the year 2001. Table 3.2 provides information on the number of firms established in each decade. As indicated in Table 3.2, the responses received were proportionally higher from younger firms.

Table 3.2: Number of Firms Established in each Decade

Years	No. of firms established
1920-1930	01
1930-1940	0
1940-1950	01
1950-1960	02
1960-1970	04
1970-1980	08
1980-1990	13
1990-2000	30
2001	01
Total	60

The Region-wise analysis of responses received is presented in the Table 3.3. The highest number of responses were received from the districts of Bhiwadi, which was followed by Udaipur, Jodhpur and Ajmer. Bharatpur, Bikaner, Churu, Dungarpur Kishangarh, Nathdwara, Sirohi and Tonk provided a very low response rate. (Refer to Rajasthan district map in Appendix 11)

Table 3.3: Region-wise Responses Received

Place	No. of companies responded	Percentage
Ajmer	6	10.00
Alwar	2	3.33
Banswara	2	3.33
Bharatpur	1	1.67
Bhilwara	4	6.67
Bhiwadi	8	13.33
Bikaner	1	1.67
Chittorgarh	3	5.00
Churu	1	1.67

Table 3.3: Region-wise Responses Received (... contd.)

Place	No. of companies responded	Percentage
Dungarpur	1	1.67
Jaipur	6	10.00
Jodhpur	7	11.67
Kishangarh	1	1.67
Kota	3	5.00
Nagaur	2	3.33
Nathdwara	1	1.67
Pali	2	3.33
Sirohi	1	1.67
Tonk	1	1.67
Udaipur	7	11.67
Total	60	100

b. Established by whom?

Figure 3.1 depicts the percentage break-up of firms established by different categories of people. 63% of these firms were established by the present owners, whereas those established by their relatives account for 7% firms. This indicates that the present owners had acquired existing business. Only 2% respondents reported that business had been jointly set up by together more than one person from the same family. 28% the firms in the sample were established by people other than the present owner or their relatives. Essentially in this case; the firms were established by other people and the present owners acquired them later.

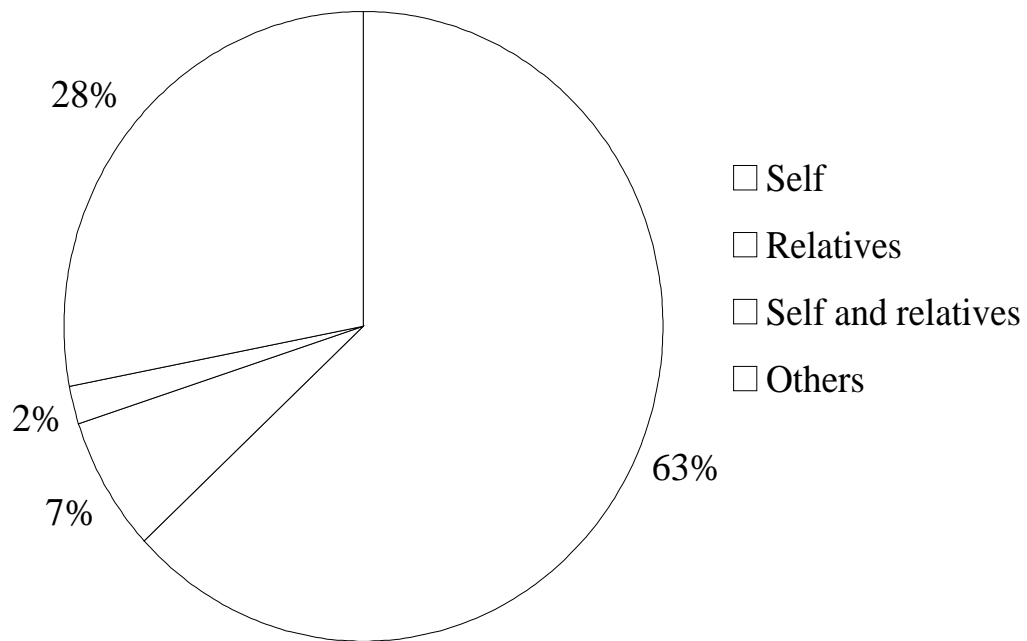


Figure 3.1: Establishment of Firms by Categories of People

c. Prior experience

An individual's past work experience also has an influence on his interest in entrepreneurship [72]. Compared to other types of work experience, past entrepreneurial experience may be more important for an interest and success in an entrepreneurial career [73].

All respondents who answered the selected question stated that before establishing their present businesses they had some work experience either as owners or employees. These findings are illustrated in Figure 3.2.

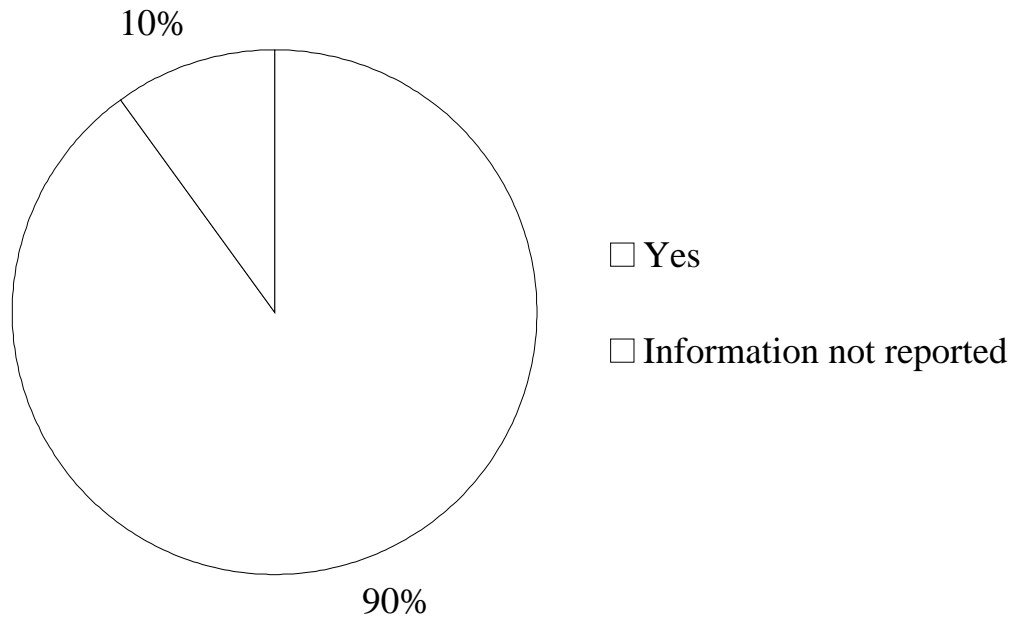


Figure 3.2: Prior Experience of Entrepreneurs

d. Types of entrepreneur

According to some authors [47] entrepreneurs can be classified into the following types:

Nascent entrepreneur: Individuals considering or planning to establish a new business

Novice entrepreneur: Individuals with no prior business ownership experience as a founder, inheritor, or a acquirer of a business

Habitual entrepreneur: Individuals with prior business ownership experience

Serial entrepreneur: Individuals who have sold or closed their original business but at a later date have inherited, established, or bought over another business.

Portfolio entrepreneur: Individuals who have retained their original business but at a later date have inherited, established or bought over another business.

Apart from the above classification, in India, enterprises were formed more prompted by the availability of resources rather than the demand in the market. Indian culture, according to the findings of Global Entrepreneurship Monitor [55] does not encourage entrepreneurship. Despite this argument, high levels of unemployment had played a role in stimulating start-ups in India. This has led to a new type of entrepreneurship called “forced entrepreneurship”. It can be concluded that ‘resource-based’ entrepreneurship and ‘necessity-based’ entrepreneurship are two additional types that can be seen in India.

In the present study 74.4% of the sample were found to be ‘habitual entrepreneurs’ (i.e. entrepreneurs with prior business ownership experience) and the balance 25.6% of the sample were ‘novice entrepreneurs’ (i.e. entrepreneurs with no prior business ownership experience). Figure 3.3 gives details about the types of entrepreneurs.

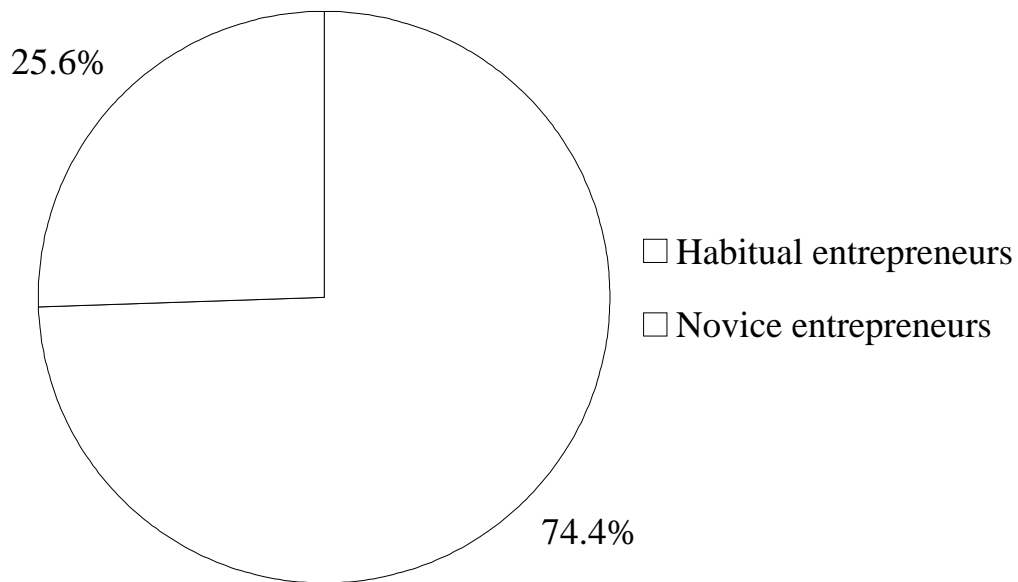


Figure 3.3: Types of Entrepreneur

Among ‘habitual entrepreneurs’ 80% had experience in diverse fields and the remaining had experience in just a single line of business. All the ‘novice entrepreneurs’ had gained experience through their employment. Employment ranged from one year to forty years.

e. New firms to start in next three years

48% of the sample reported that they were interested in starting a new firm within the next three years. 40% said that they would not start any new venture. The remaining 12% did not respond.

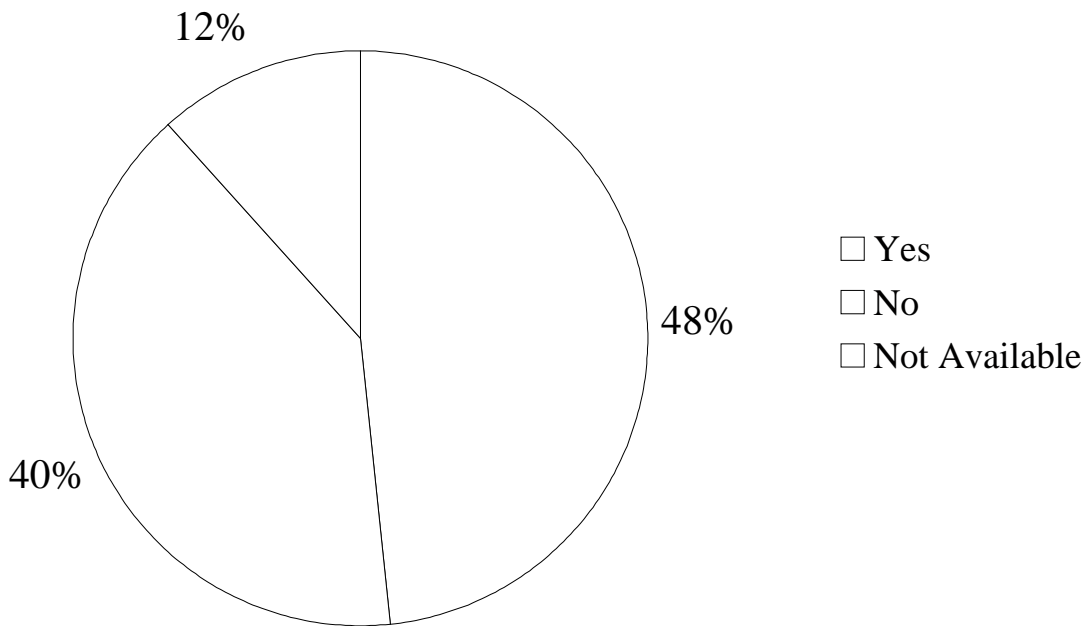


Figure 3.4: New Firms to be Started Within Next Three Years

f. Reasons for starting a new firm

Respondents were asked to indicate their reasons for starting a new venture. An analysis of their responses is presented in Table 3.4.

Table 3.4: Reasons for Starting a New Venture within the Next Three Years

Reasons for new venture	No. of firms	Percentage
Expansion	12	41.38
Diversification	9	31.03
Forward Integration	1	3.45
Backward Integration	1	3.45
Joint Venture	1	3.45
Information not provided	5	17.24
Total	29	100

3.3.2 Socio-economic Background

Responses for question numbers 4 to 9 of the mailed questionnaire are analysed here. According to Matthews and Moser, demographic and tracking models suggest that the family background, gender, and past entrepreneurial experience are related to entrepreneurial intentions [74].

Personality attributes that determine whether one can be an entrepreneur are, moderate risk taking, internal locus of control and quest for achievement. But there is no empirical basis to say much about entrepreneurs and their propensity for risk-taking. As a matter of fact, every entrepreneur has a unique set of attributes. These factors might facilitate or hinder the launching of a new venture. Furthermore, these attributes change over time. The importance of any single attribute is always culture-and situation-specific.

a. Place of birth of promoters

More than two third of the sample studied were born in Rajasthan. Only thirteen per cent of promoter's were non-Rajasthanis who established their business in Rajasthan. This is depicted in figure 3.5. These non-Rajasthanis originally hailed from New Delhi, Amritsar, Rajkot or the state of Uttar Pradesh.

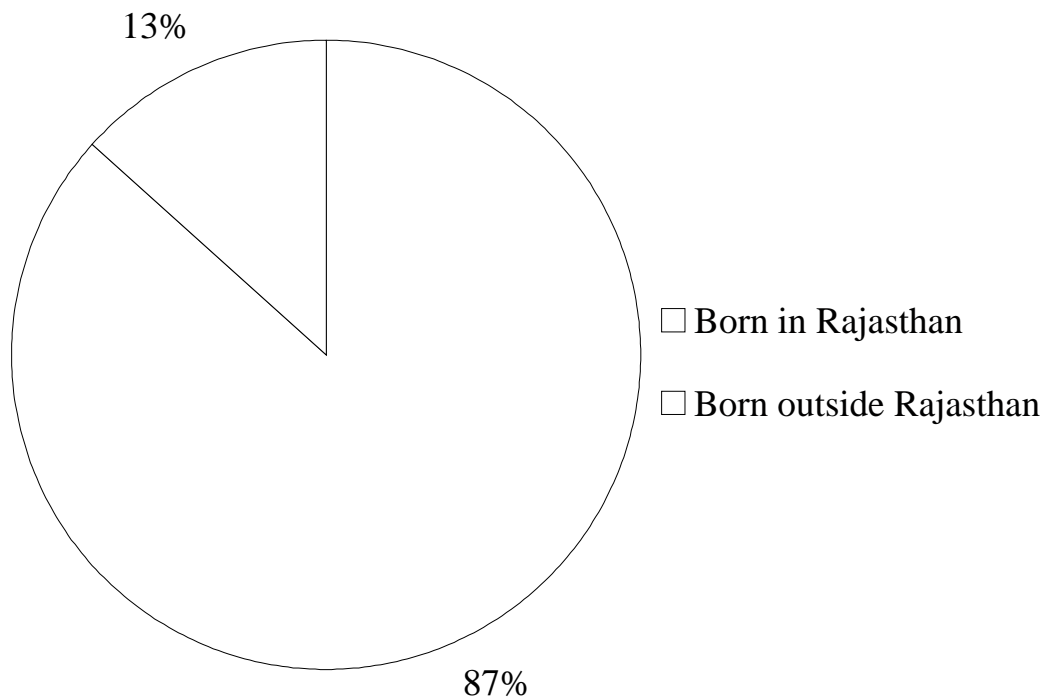


Figure 3.5: Place of Birth of Promoters

b. Age of the promoters at the time of establishing the business

Figure 3.6 shows that the largest number of businesses were established by entrepreneurs in the age group of 45-59. Sixty per cent of the entrepreneurs established their business in the age group between 25 and 44 years. Only 5% of the businesses were established by those below the age of 25. From these findings, it may seem that with the increase in age there is a greater intention for one to go on his own.

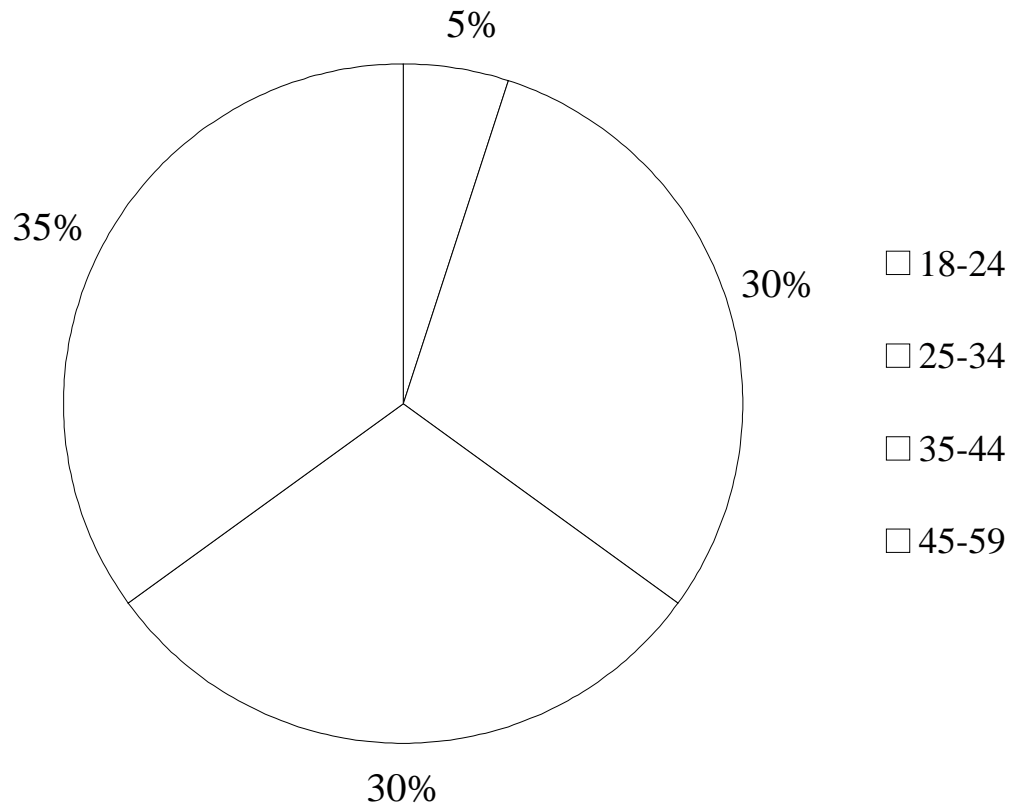


Figure 3.6: Promoters' Age at the Time of Establishing the Business

c. Education

It was found that all those who replied did have some formal education, 5% of them had been educated up to Secondary School level (up to the tenth standard of schooling) and about 1.67% up to the Higher Secondary level (twelfth standard). The majority of the entrepreneurs (57%) had college education. (Refer figure 3.7). Evidently, a fairly large proportion of the entrepreneurs were college educated.

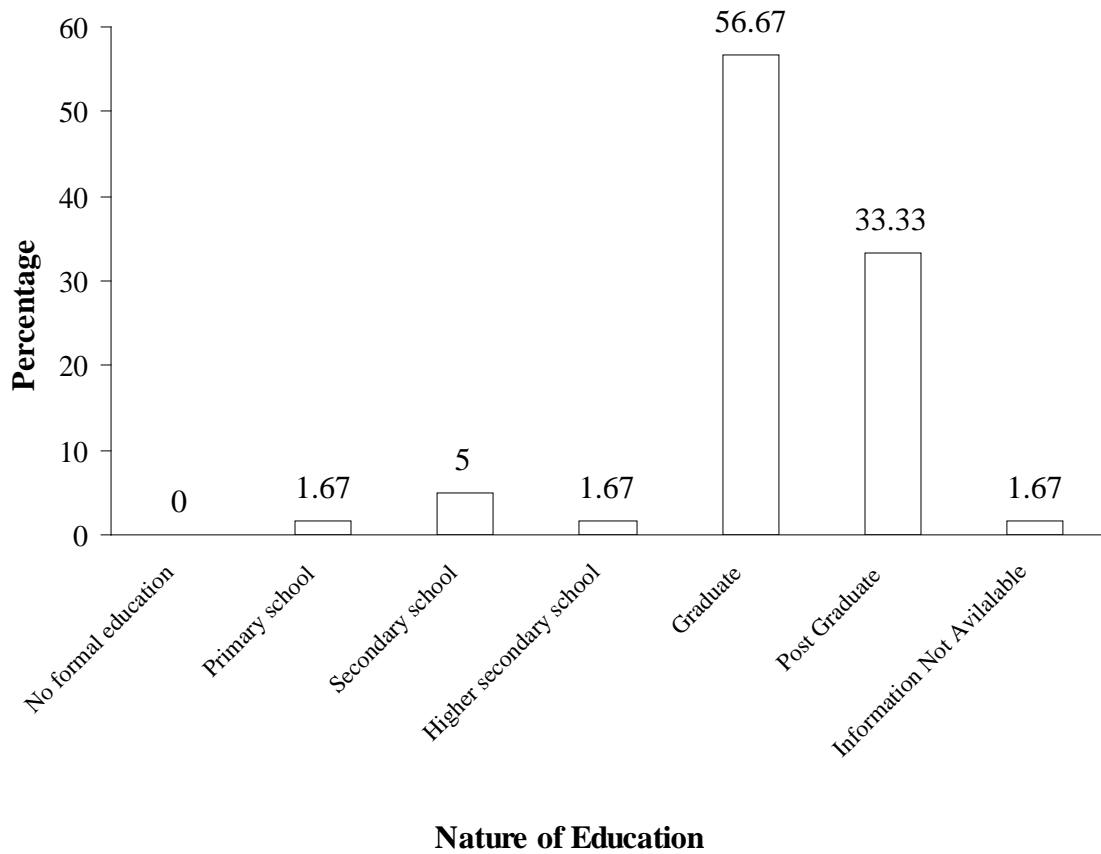


Figure 3.7: Promoters' Educational Qualification

Kauffman Center for Entrepreneurial Leadership reported that the relationship between levels of education and entrepreneurship appeared to be curvilinear in developing countries, whereas in developed countries it was linear. In the present study, it is observed that while there is an initial increase in the rate of entrepreneurship with regard to the level of education, it declines sharply beyond graduation. This is because in India a large majority seems to be forced into entrepreneurship because of limited employment opportunities. As postgraduates are well-qualified and are able to obtain jobs, they do not seem to find it necessary to opt for entrepreneurship. As against the findings in developed countries, in India income and education levels are inversely correlated with entrepreneurship [75].

d. Joint family vs. Nuclear family

A person born into a business family is almost certain to be exposed to business values, ethics and absorbs them without any conscious effort. In addition, business ventures are sustained by mobilizing support especially financial resources through a network of family and friends. To begin with a business will be small in size and it will gradually grow through expansions and diversifications. The growth of the firms depends on the nature of the entrepreneurs' family system i.e., joint or nuclear, number of siblings, family head and strength of ancient values [76].

An extended family has both positive and negative effects on entrepreneurial activity. Joint families provide resources, facilities and the entrepreneurial training required for the establishment of firms. They also sometimes act as a hindrance by appropriating all the income from the business for the current consumption of the family rather than allowing it to remain in the business as a reinvestment. Figure 3.8 depicts that more 4/5ths of the respondents in the survey hailed from a joint family background.

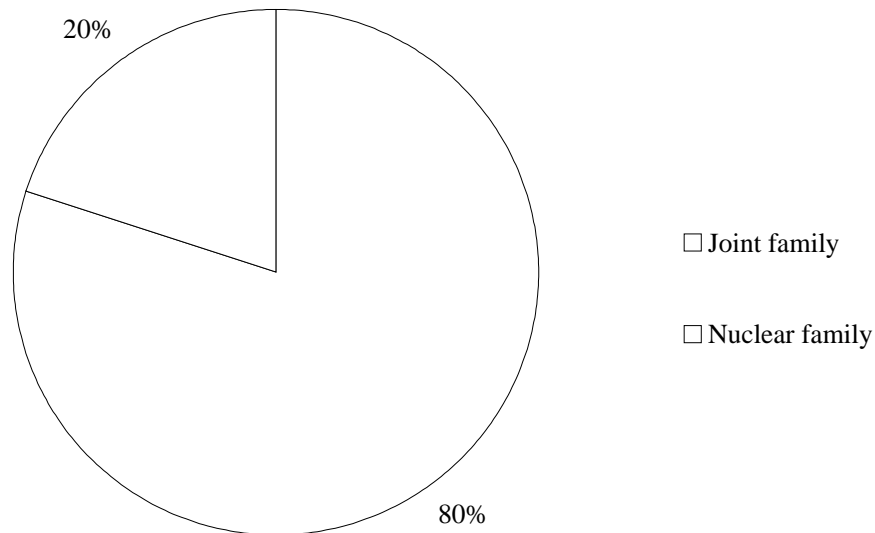


Figure 3.8: Promoters' Family Background

e. Parents self-employed

The family background and the norms and values of the immediate social circle also affect the inspiration for entrepreneurship. Culture and personal values are of paramount significance. Researches established that those who had self-employed parents were most likely to themselves found businesses [77].

People with a family background of entrepreneurship are more likely to consider career in entrepreneurship and at a younger age. A large proportion of self-employed people have parents who themselves were self-employed [75]. A survey of 890 entrepreneurs found that 50% had at least one parent who had been self-employed [78]. Self-employed parents are probably important if they are perceived to be successful [79]. According to role model theory, parents exert a strong influence on children when they opt for a certain type of entrepreneurial activity [80].

It is known that individuals with self-employed parents are over-represented among business founders, as are those who are between 25 and 40 years old and have previous experience or have been self-employed [81,82]. These trends are borne out by the present findings. From the figure 3.9 it is observed that 4/5th of the promoters' parents were self-employed and 20% of the promoters' parent's were not self-employed.

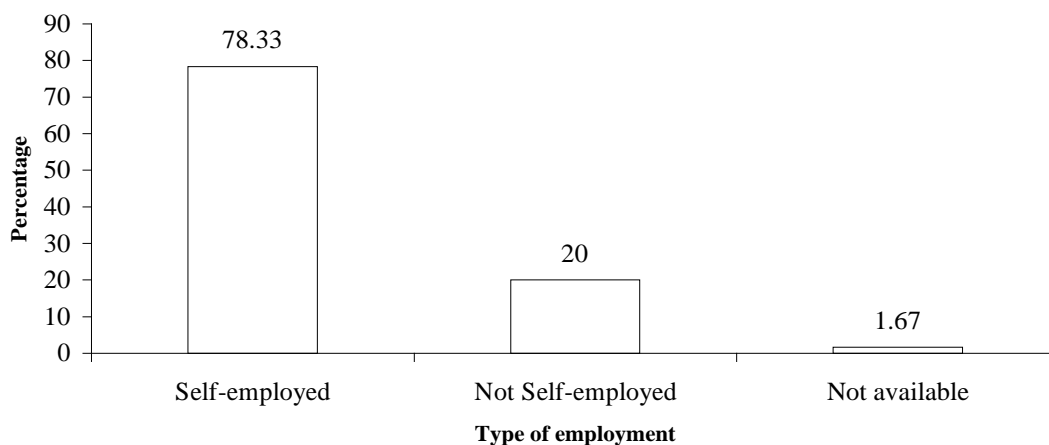


Figure 3.9: Promoters' Parents' Employment Status

f. Financial standing of the promoter's family

The proportion of entrepreneurs is substantially higher for the middle and higher income groups. A majority of the entrepreneurs came from families, which had a sound financial position, 50% from the middle-income group, 48% from the higher-income group. Only 2% of the respondents hailed from a poor background. This is also in conformity with the findings of the Global Entrepreneurship Monitor (GEM) 2003 India Report, which indicated that people from the middle-income group (50.57%) followed by the higher-income group (33.38%) formed the majority of the entrepreneurs.

It can be argued that people with sound finances can better afford to be entrepreneurs in which case it highlights the importance of financial support for facilitating entrepreneurship.

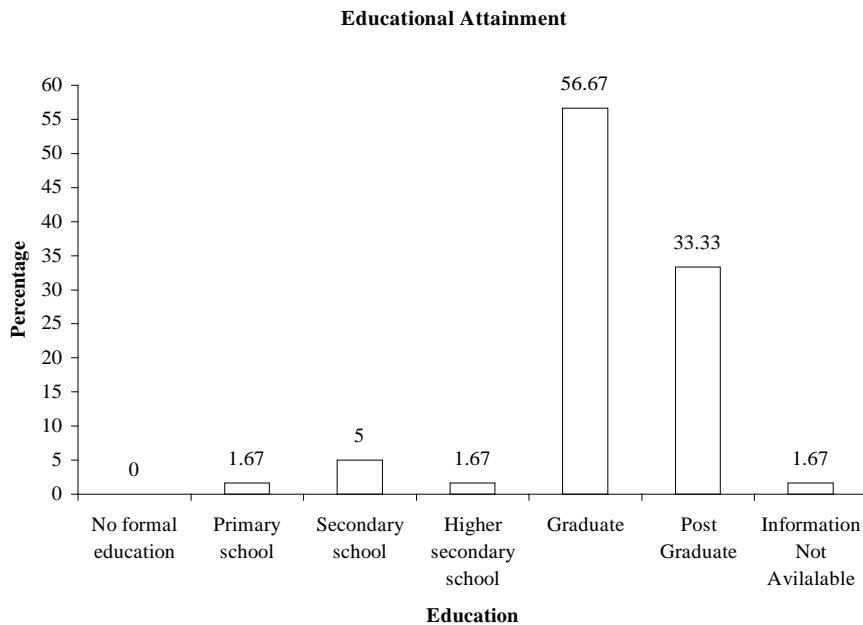


Figure 3.10: Financial Standing of Promoters' Family

3.3.3 Reasons for Starting a Venture

Responses to question number 10 of the mailed questionnaire are analyzed here.

The creation of new independent businesses accounts nearly for one-fourth to one-third of the economic growth in many industrialized countries [75]. Identifying the factors that influence an individual's choice to pursue independent business creation might, therefore, lead to insights that would have an impact on economic growth and development.

Before recognizing and appreciating these entrepreneurs one needs to know how to identify them and understand what motivates them [83].

Motivation refers to the factors within an individual, other than knowledge, which energize, direct and sustain behaviour [84]. Motivation can be extrinsic or intrinsic. Extrinsic motivation has a stronger relationship with material factors while in case of intrinsic motivation the individual basically tries to fulfil his aims in life. Either type of motivation has an influence on the actions of the entrepreneur.

Entrepreneurship motivation is described as the socio-psychological drive among people that leads to economic development of a country [77]. New businesses are not created by accident. The effort and time involved in starting a business would suggest that entrepreneurial actions are clearly intentional.

It has been argued [85] that entrepreneurial behaviour such as becoming self-employed or starting a business is intentional and thus is predicted by intentions and not by attitudes, beliefs, personality or demographics. Intentions are assumed to capture the motivational factors that influence the behaviour. They are immediate antecedents of actual behaviour.

Different schools of thoughts propose different motivations or reasons for starting a business. The economic view of entrepreneurship suggests that entrepreneurs are motivated by the objective of profit maximization. Psychologists contend that

entrepreneurship is a matter of individuals and therefore consider issues such as personality characteristics. Sociologists explain entrepreneurial motivation in terms of such factors as religious belief and ethnic, class, and caste identities. A combination of all these approaches would give a holistic picture of what motivates people.

Unfulfilled needs and internal and external stimuli trigger an individual to recognize a business opportunity. The decision-driven ventures can be either internally motivated, in which a person is “pulled” (by a desire to be one’s own boss) toward starting a venture, or externally motivated, in which a person is “pushed” (due to lack of other alternatives) into starting a new venture. In other words it can be also described as opportunity vs. necessity-based entrepreneurship.

There are number of motivational characteristics that have been identified in entrepreneurial research and these include innovativeness, independence, respect for work, economic considerations, affiliation, power, self-actualization and achievement [86].

Dissatisfaction with previous occupations could be also a factor which makes people choose entrepreneurship. The scarcity of employment opportunities and unattractive job conditions have attracted many qualified people into entrepreneurship. Indian researchers have used motivation and personality traits interchangeably. Most of the studies on motivation in India are descriptive in nature.

The reasons for starting a business were examined in a pioneering study [87] called the Society of Associated Researchers of International Entrepreneurship (SARIE) research. This research listed thirty-eight reasons, for starting a business which were classified into six broad categories.

- Need for approval
- Need for independence
- Need for personal development
- Welfare considerations (in terms of contributing to the community)

- Perceived instrumentality of wealth, tax reduction, and
- Following role models

Another study [88] explored the reasons given for self-employment versus organizational employment. It proposed that there were eleven types of reasons for choosing between self-employment and organizational employment: security, economic opportunity, authority, autonomy, social environment, work load, challenge, self-realization, participation in the whole process, avoiding responsibility, and career choice. It found that individuals who were self-employed were more likely to choose economic opportunity, authority, autonomy, challenge, self-realization, and participation in the whole process, as compared to those choosing organizational employment.

Table 3.5 and Table 3.6 provide information on various research studies carried out to determine the reasons for starting business.

Table 3.5: Summary of Research on the Reasons For Starting A Business

Reasons for starting a business/ factors studied or focused on	Research Studies
Need for independence	Friberg, 1976; Schein, 1978; Hofstede, 1980; Smith and Miner; 1983.
Innovation	McClelland, 1961; McClelland and Winter, 1969; Shane et al. 1991 (considered as “learning”); Birley and Westhead 1994, Sheinberg and MacMillan 1988 (considered as “need for personal development”).
Need for material incentives (financial Success)	Friberg, 1976; Knight, 1987; Scheinberg and MacMillan, 1988 (labeled as “perceived instrumentality of wealth.”); Birley and Westhead, 1994;
Desire to escape or avoid a negative situation	Collins and Moore, 1955; Cooper, 1971; Friberg, 1976; Hagen, 1962; Shapero, 1975
Need for social approval	Friberg, 1976; Maslow, 1943; McClelland, 1961; Bonjean, 1966; Vroom, 1967, Nelson, 1968.
Drive to fulfil personal values or norms (self realization)	Friberg, 1976; Gilbert, 1997
Desire to follow family traditions (roles)	Hofstede, 1980; Shane et al. 1991
Tax considerations	Shane et al. 1991

Based on the literature survey, the reasons for starting a business can be broadly classified into six categories; business opportunity, business reasons, government, profit, personal characteristics and social objectives. In the following paragraphs each one of these elements is discussed in detail.

Business Opportunity:

Entrepreneurs are able to spot unique opportunities [89]. They are able to identify new opportunities, needs, problems or solutions [90]. Entrepreneurs are able to turn the common place into the unique and the unexpected. People start businesses to tap these opportunities.

Business Reasons:

These are the reasons which emanate from existing business. The entrepreneurs may wish to opt for one of the several options available to them e.g. forward integration, backward integration, expansion, diversification, promotion of businesses in other geographical regions, joint venture formation, etc.

Government:

This refers to the government promotional policies, incentives and infrastructure facilities. This factor acts as an external stimulus to start a company.

Personal Characteristics:

It is individuals who start businesses. Their personal characteristics influence their intentions to start a business. Personal characteristics can be:

Independence [91]: Desire for freedom, control, and flexibility in the use of one's time. They have a need for autonomy and desire for personal control [92], and they seek to be their own boss [93, 94].

Recognition: Intention to acquire status, approval, and recognition from one's family, friends, and from those in the community; making a name, standing out from the crowd.

Roles: Desire to follow family traditions or emulate the example of others.

Self-realization: Pursuing self-directed goals, realizing their own ideas about how the organization should evolve, using their full range of talents.

Innovation: Intention to accomplish something new. Introducing original ideas about products or services, doing something new or different. Desire to create something of one's own.

Stability: Security or stability for family and others and for both the current and future generations. The objective is to have a better future prospect and a secure life.

Profit: Intention to earn more money, become wealthy, meet financial needs and goals and provide benefits to shareholders.

Social Objectives: Provide employment, contribute to the community, region or country in terms of general economic development, act as a source of revenue, earn foreign exchange, etc.

The reasons for starting a business have remained the same irrespective of whether such data have been collected through close-ended or open-ended questions [95].

In the present study the respondents were asked an open-ended question – “What was the promoter's motivation for starting this firm?”. The responses received were coded and

sorted into the six categories mentioned above. Table 3.7 provides details on the various reasons for starting a business according to the sampled entrepreneurs in Rajasthan.

Table 3.7: Reasons For Starting A Business

Reasons	Frequency	Percentage
Business Opportunity	10	12.35
Business Reasons	17	20.99
Government	6	7.41
Profit	5	6.17
Personal Characteristics	31	38.27
Social Objective	9	11.11
Not Available	3	3.7
Total no. of responses	81*	100

* *The total number of responses (81) is more than the total number of respondents (60) because of multiple answers provided by the respondents.*

Figure 3.11 provides details on the number of distinct answers provided by the respondents. Most respondents provided only one distinct answer to the question. Around 34% of the respondents gave two or more than two distinct answers to the question.

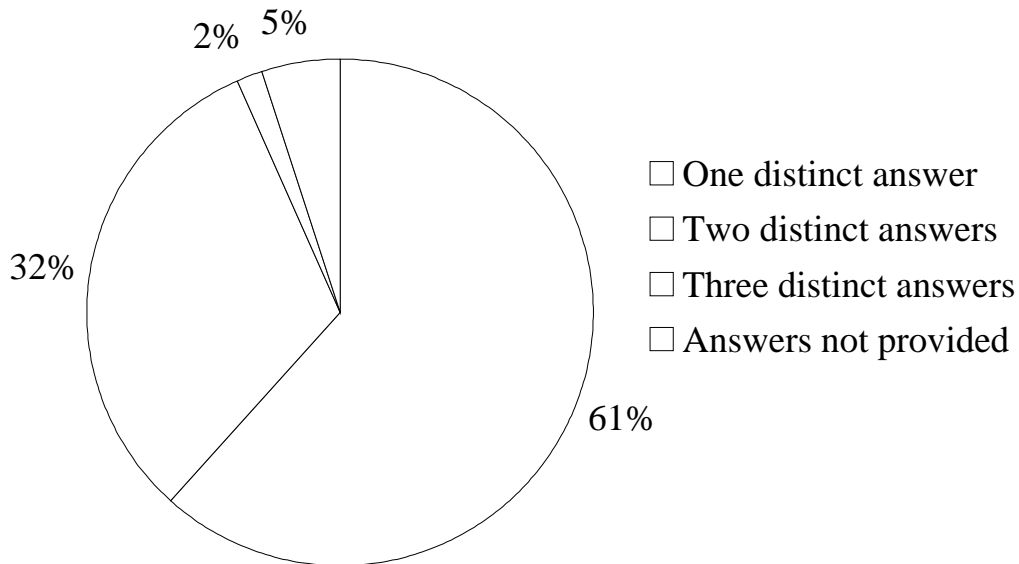


Figure 3.11: Distinct Answers Provided

Figure 3.12 depicts the reasons for starting the venture. Entrepreneurs in Rajasthan started businesses primarily because they were propelled by of their personal characteristics. The predominant motives were independence, autonomy, accomplishment, achievement and self-actualization. This was followed by business reasons, specifically with regard to availability of raw material and the expansion and diversification policies of the existing firms. Only 12 per cent of the entrepreneurs started their business in Rajasthan because of availability of business opportunities. This clearly indicates that there is a lack of availability of business opportunity in the state of Rajasthan. Around 11 per cent of the entrepreneurs started businesses because of their social commitment and involvement.

Contrary to the general belief that individuals start businesses with the prime aim of making money, only 6.17 per cent of the entrepreneurs stated that they started their businesses with the objective of making money. Money was not a significant motive for the initiation of new businesses in Rajasthan. This finding conforms to that of the GEM 2003 India report, which reported that at the national level economic motives were secondary.

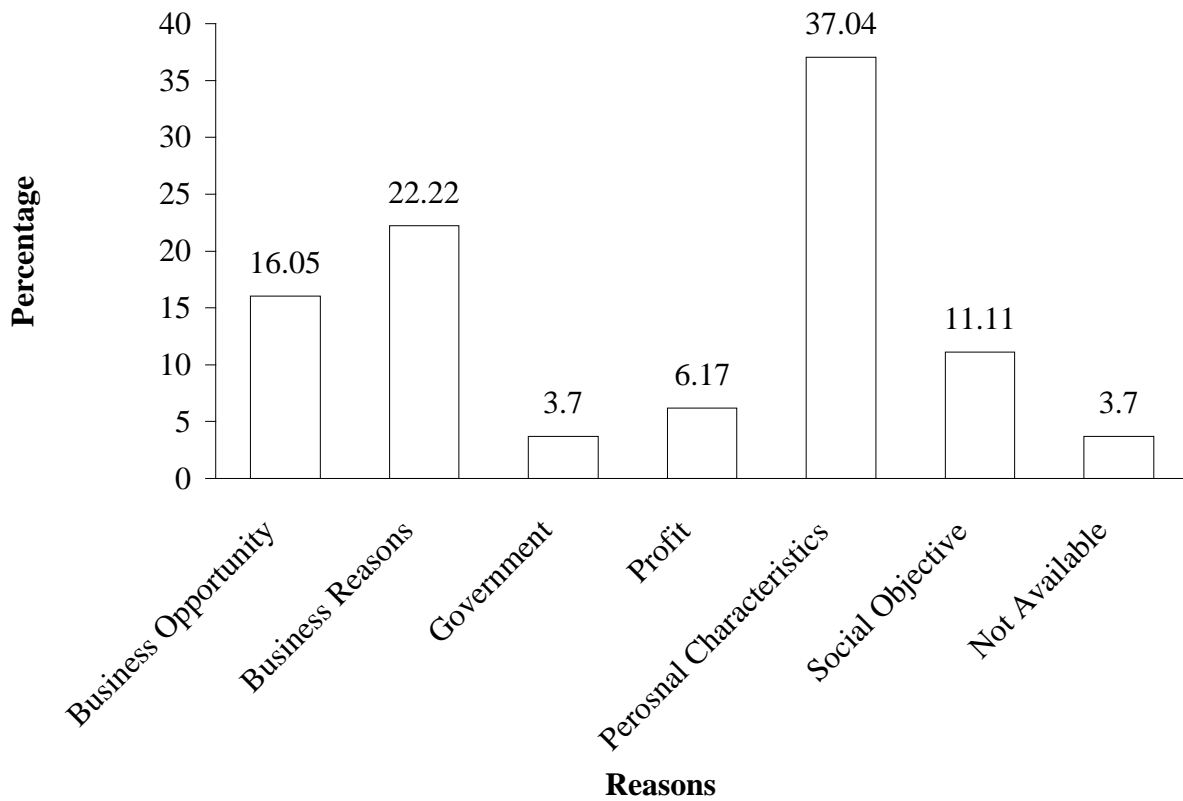


Figure 3.12: Reasons for Starting the Business

3.3.4 Problems Faced in Starting a Venture

Responses to question number 12 of the mailed questionnaire are analyzed here.

This section is concerned with the problems encountered by the entrepreneurs at various stages in the development of the firm. The major problem areas in India seem to be:

- Inadequacy of knowledge dissemination in society
- Extremely poor physical infrastructure
- Lack of respect for entrepreneurship in society
- Inadequacies in government policies, programmes and their implementation.

Entrepreneurs faced several obstacles including lack of financial assistance, lack of information on various aspects of business, excessive taxation and high rates of inflation [96]. The barriers to entrepreneurship in India have been the social system that regulated mobility through caste system until 1947, availability of risk free options i.e., availability of government jobs, economic constraints in terms of non-availability of capital, high transaction costs, bribes, red tape, etc., and adverse government policies. It was reported that officers associated with industrial promotional activities generally responded in a lukewarm manner to the prospective entrepreneurs.

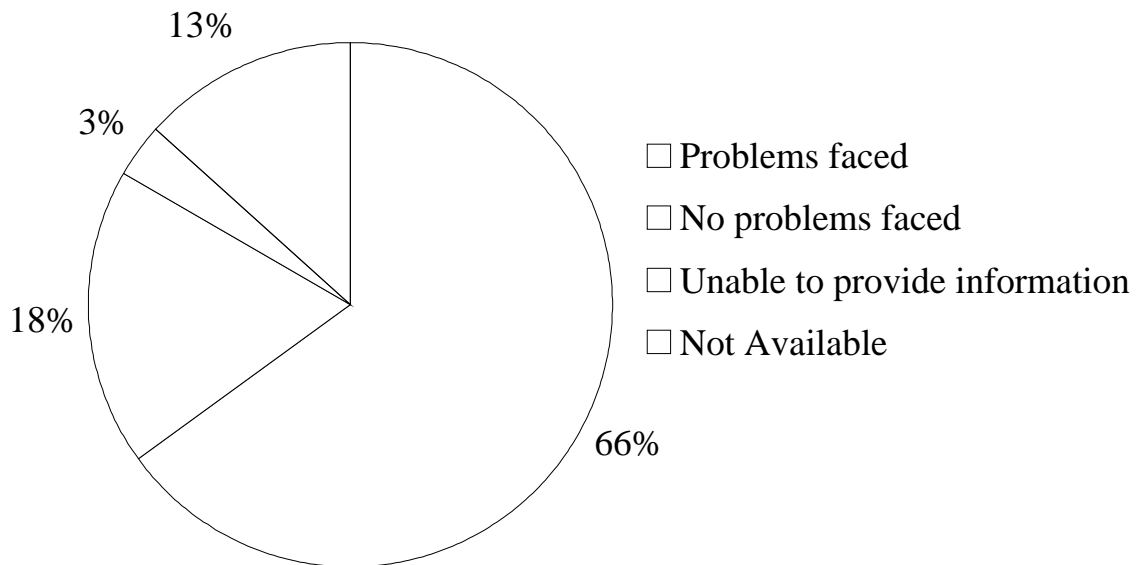


Figure 3.13: Problems Faced by Entrepreneurs

Among the respondents 66% of the promoters mentioned that they had faced problems or obstacles while establishing the firm, and only 18% of the respondents mentioned they hadn't faced any problem while establishing their firm.

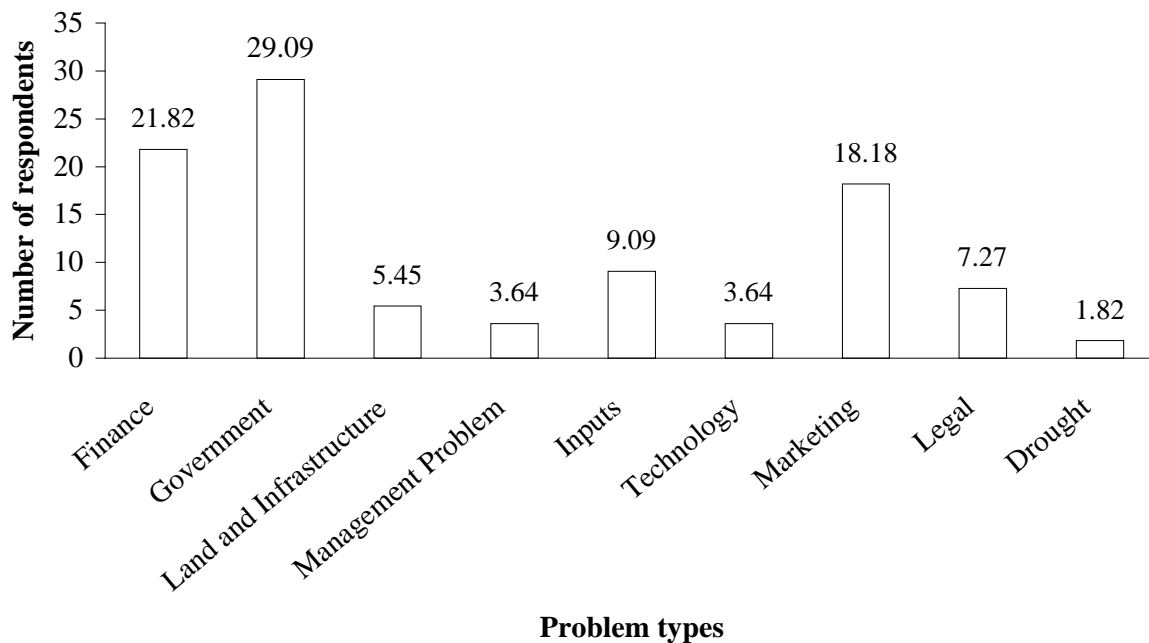


Figure 3.14: Nature of Problems Faced by Entrepreneurs

Around 30% of the entrepreneurs in Rajasthan faced problems in dealing with government departments for establishing the firm. This was followed by lack of finance or funding for the establishment of the firm. Lack of marketing facilities was another frequently quoted problem. Other problems, although faced less frequently, were non-availability of material inputs and technology, and those related to legal and management issues. Natural disasters were the least of the problems faced by entrepreneurs in Rajasthan.

The above findings are quite in agreement with the observations made by the World Bank in its report no. 32585-IN, titled *India Rajasthan- Closing the Development Gap*, dated January 25, 2006. In this regard paragraph 32 is quoted below.

“Private investment Private investment and productivity across sectors in Rajasthan continue to be constrained by several factors. Key among them are: (i) legal and regulatory inefficiencies and red tape that restrict the entry, exit and efficient operation of businesses, particularly small and medium firms; (ii) insufficient access to credit; and (iii)

infrastructure shortages. In addition, slow urban development is another constraint to growth.” (Source available at: http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2006/02/09/000012009_20060209094907/Rendered/PDF/325850RV0IN.pdf)

The following findings emerge from the study. A typical entrepreneur in Rajasthan is a well-educated male from a joint family. The most important motives for starting business in Rajasthan are non-monetary in nature. With regard to the future plans of existing entrepreneurs opinion is divided regarding the intention to start new businesses. Expansion and diversification were the most frequently mentioned reasons for starting a business. Government bureaucracy, lack of finance and funding options and non-availability of adequate marketing facilities were the most serious problems faced by industrial entrepreneurs in Rajasthan.

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