CHAPTER 1

INTRODUCTION

1.1 Introduction

Entrepreneurial development provides millions of job opportunities, offers a variety of goods and services, and increases economic prosperity and competitiveness. It enables to improve the quality of life of individuals, families and societies and to sustain a healthy economy and environment. It is seen as a key to economic development in many countries across the globe (Zahra 1999). Entrepreneurship in the form of micro, small and medium enterprises enable inclusive development in an economy.

Economic growth and development requires vibrant and visionary participation of entrepreneurial community. Dynamism in economy demands increased business activities, expansion / diversification, effective and efficient utilisation of available resources. Entrepreneurship promotes innovation, engenders competition, creates employment and thus contributes to economic wealth and spending power (Guasch, Kuznetsov and Sanchez 2002). According to Global Entrepreneurship Monitor Report (2000), 'about 70 percent an area’s economic performance is dependent upon how entrepreneurial the area’s economy is’. As an iterative, business churning process, entrepreneurship stimulates economic development and generates social wealth through opportunity discovery and exploitation (Venkataraman 1997). Entrepreneurship is generally perceived as an engine of social and economic growth (Acs and Audretsch 2003). Research studies have established that developed nations with sustained economic growth and development, also had relatively higher rates of new enterprise formation. Thus, entrepreneurship along with laying a strong foundation and support for economic success, promotes development and growth in a country.

1.2 Concept of an Entrepreneur

In order to develop any economy, mere existence of physical resources is not sufficient, rather competent human resource is also inevitable. Unless initiative is
taken to organise and combine the resources into productive purposes, they will remain unutilised or underutilised. Human being, by efficiently utilising various resources, acts as the central force of industrialisation and economic development. Such persons are known as entrepreneurs. The word entrepreneur is derived from the French word ‘entreprendre’, which means ‘to undertake’. The term entrepreneur refers to the individual or individuals who may attempt or who are attempting to found a business. . . ’ (Learned 1992, 2). He is a person who conceives a business opportunity, evaluates its techno-economic feasibility, and implements the project by combining different factors of production such as land, labour capital etc., and run the project idea. Vibrant entrepreneurs become the agents of change and dynamism in an economy. They create goods and services, employment opportunities and assign productive uses for various resources. They create combination of various resources for better economic advantages along with assuming risks and responsibilities. They contribute significantly to an economy by playing an active role in capital formation, creation of employment opportunities, promoting balanced regional development, efficient and effective utilisation of scarce resources, mobilisation of capital and skills, creation of forward and backward linkages, contributing to gross domestic product and per capita income, and improving standard of living of people.

The entrepreneurs are of different types. Based on the type of business they are engaged in, they are classified as trading entrepreneurs, industrial entrepreneurs, agricultural entrepreneurs, retail entrepreneurs, service entrepreneurs and corporate entrepreneurs. Based on gender, they are classified as male entrepreneurs and women entrepreneurs. Based on area of operation, they are classified as rural entrepreneurs and urban entrepreneurs. Based on their nature of entrepreneurship, they are classified as innovative entrepreneurs, imitative / adoptive entrepreneurs, fabian entrepreneurs and drone entrepreneurs. They can also be classified as ‘necessity entrepreneurs’ and ‘opportunity entrepreneurs’.

1.3 Entrepreneurial Roles

An entrepreneur has many roles and responsibilities to perform. Beginning from Cantillon (1730) in the eighteenth century, scholars have assigned several roles for
entrepreneurs. It includes roles of a risk bearer, organiser and allocator of scarce resources among alternative uses, innovator, decision-maker, industrial leader, owner of an organisation, employer of factors of production and so on. Modern economists state that an entrepreneur is a special type of businessman, who is willing to undertake the task of organising the different factors of production, handles various managerial affairs, bears risk and sets the business to run it profitably. Broadly, entrepreneurial roles can be identified as a risk bearer, organiser and innovator.

1.3.1 Entrepreneur as a Risk Bearer

Cantillon (1730) defined an entrepreneur as ‘someone who takes the risk of running an enterprise by paying a certain price for securing and using resources to make a product and reselling the product for an uncertain price’. Thus, according to Cantillon, an entrepreneur is self-employed individual who actively takes the risk of economic activity of buying and selling. Knight (1965) described entrepreneur to be ‘a specialised group of persons who bear uncertainty. He is ‘the economic functionary who undertakes such responsibility of uncertainty which, by its very nature, cannot be insured, neither capitalised nor salaried too’. Palmer (1971) states, that the ‘entrepreneurial function involves primarily risk measurement and risk taking within a business organisation’. Further, ‘the successful entrepreneur is that individual who can correctly interpret the risk situation and then determine polices which will minimise the risk involved’. Thus, an entrepreneur assumes economic and psychological risks while performing his entrepreneurial activities.

1.3.2 Entrepreneur as an Organiser

Say (1827) viewed that ‘an entrepreneur as a person endowed with qualities of judgment, perseverance and knowledge of the world of business’. He defined the entrepreneur as ‘the agent who combines the land of one, the labour of another and the capital of yet another, and thus, produces a product. By selling a product in the market, he pays interest on capital, rent on land and wages to labourers and what remains is his / her profit’. Thus in his view, an entrepreneur engages in coordination, organisation and supervision in a business environment. Harbison (1956) states that the ‘organisation building ability is the most critical skill needed
for the industrial development’. Entrepreneurship is the skill to build an enterprise. Menger (1871) explained entrepreneurship as ‘the process of converting resources into goods and services having value to the consumers’. Thus as an organiser an entrepreneur, using his skills and qualities, combines factors of production, manages them for making profit.

1.3.3 Entrepreneur as an Innovator

Schumpeter (1939), in his ‘Theory of Economic Development’, for the first time, assigned the role of an innovator to an entrepreneur. Schumpeter considered ‘economic development as a discrete dynamic change brought by entrepreneur by instituting new combination of factors of production, i.e., innovations’. He treated entrepreneur as an inevitable part of economic growth and development. According to him, ‘the introduction of new combinations of factors of production may occur in any of the following five forms;

1. The introduction of a new product in the market.
2. The institution of a new production technology which is not yet tested by experience in the branch of manufacture concerned.
3. The opening of a new market into which the specific product has not previously entered.
4. The discovery of a new source of supply of raw material and
5. The carrying out of the new form of organisation of any industry by creating of a monopoly position or the breaking up of it.’

Drucker (1985) views that an entrepreneur, along with solving problems, uses resources to gain advantage of the opportunities. He views that ‘the entrepreneur always searches for change, responds to it, exploits it as an opportunity. Entrepreneurs have a mindset that sees the possibilities rather than the problems created by change’. He viewed that ‘entrepreneurship is neither a science nor an art. It is practice’. Thus, as an innovator, an entrepreneur always deals with something new and exploits it as an opportunity.
1.4 Entrepreneurial Competencies or Traits

Entrepreneurial traits are the characteristics or qualities, which result in superior performance. They consist of possessing certain knowledge, skill or personality profile, which helps the entrepreneurs to perform well. A study, conducted at Entrepreneurship Development Institute of India, Ahmedabad under the guidance of McClelland, has listed the following competencies as which lead to superior performance of entrepreneurs (Khanka 2009).

1. Having initiative
2. Looking for opportunities
3. Exhibiting persistence
4. Information seeking
5. Quality consciousness
6. Committed to work
7. Efficiency seeking
8. Proper planning
9. Problem solving
10. Showing self-confidence
11. Efficient monitoring and
12. Effective strategist.

Thus, an ideal entrepreneur is a person with a wide range of aptitudes and skills such as the capacity to undertake risks, to forecast the future of an enterprise, to assemble different factors of production effectively and efficiently, to manage numerous activities of business, to imitate / innovate ideas, self-confidence, firmness, courage and competence to face unforeseen and unfavourable situations etc. He also need to deal external environmental factors such as social, cultural, legal, economic, market, technology etc. An entrepreneur must have a commitment to expand and grow with consistency and perseverance.

1.5 Entrepreneurial Process

A person, in the process of becoming an entrepreneur, undergoes the following stages;

1. Identifying own capability.
2. Generation of project ideas and selecting the most suitable plan based on analysis.
3. Determination of form of organisation as sole proprietorship / partnership / company or any other.
4. Completing requirements of enterprise promotion.
5. Procuring / mobilising various resources such as money, materials, labour, machines etc.

6. Conducting market research.

7. Determining specific business objectives, programmes, schedules etc.

8. Undertaking day-to-day business operations.

9. Monitoring and controlling performance and bringing necessary changes in the enterprise.

1.6 Concept of Entrepreneurship

Like any economic concept, entrepreneurship has been a subject of much debate and discussions. There is no unanimously accepted definition for entrepreneurship. It is defined differently by experts as risk bearing, innovating, thrill seeking etc. ‘Entrepreneurship is historically associated with risk taking’ (Gurol and Atsan 2006). Hisrich, Peters, and Shepherd (2005) define as ‘the process of creating something new with value by devoting the necessary time and effort, assuming the accompanying financial, psychic, and social risk, and receiving the resulting rewards’. It is ‘the creation of new organisations’ (Gartner 1990). ‘Entrepreneurship is an attempt to create value through recognition of business opportunity, the management of risk taking appropriate to the opportunity, and through the communicative and management skills to mobilise human, financial and material resources necessary to bring project to fruition’ (John and Stevenson 1984). It is an individual’s response to an environment. ‘An entrepreneur represents an individual or a group of individuals who conceive, initiate and maintain, for a significant period of time, a social institution which produces economic goods’ (Cole 1949). ‘Entrepreneurship has become the engine of economic and social development throughout the world (Acs and Audretsch 2003). It is the unique resource central to the economic development of any nation. Hence, entrepreneurship is an inevitable element for development and growth of any economy. It demonstrates the inner quality, a creative and innovative response of the entrepreneur to changing environment (Sharma 1991). It is ‘the opportunity obsessed, holistic in its approach, resource parsimonious, and leadership drive for the purpose of value creation
Introduction

(Timmons and Spinelli 2006). Thus, it is a continuous process consisting functions performed by an entrepreneur in establishing and running an enterprise for creating value as a result of managing various resources. It is a dynamic process of creating incremental wealth by individuals who assume the financial, social and psychological risks. Micro Small Medium Enterprises (MSMEs) are representing one of the critical forms of entrepreneurship in any economy.

1.7 Schools of Entrepreneurship

According to Cunningham and Lischeron (1994), there are six schools of entrepreneurship concept. These schools of thought are developed based on the characteristics and nature of entrepreneurial behaviour. They enable to understand reasons for entrepreneurship in different contexts and help to design approaches to develop entrepreneurs.

1.7.1 The Great Person’s School of Entrepreneurship

The ‘great person school’ states that entrepreneur has an intuitive ability and traits, without which he lacks entrepreneurial make up. The model identifies the skills such as intuition, vigour, energy, persistence and self-esteem for the entrepreneur.

1.7.2 The Psychological Characteristics School of Entrepreneurship

The central focus of psychological school of entrepreneurship is that entrepreneurs have unique values, attitudes and needs that drive them. Such people behave as per their values. The three personality characteristics such as risk-taking propensity, personal values (responsibility, duty etc.) and the need for achievement (nAch) influence entrepreneurship. Thus, entrepreneurship is a trend that develops over time in an individual through the process of socialisation.

1.7.3 The Classical School of Entrepreneurship;

The classical school views that the central characteristics of entrepreneurial behaviour is innovation. This model assumes that the critical aspect of entrepreneurship is in the process of doing rather than owning. According to this school, the main ingredients of entrepreneurship are innovation, creativity and
discovery. Thus, entrepreneurship is ‘the opportunity-seeking style of management that sparks innovation.’

1.7.4 The Management School of Entrepreneurship;

The management school views that entrepreneurs are organisers of an economic venture. It states that an entrepreneur is a person who organises, owns, manages and assumes risk. This model gives an argument that entrepreneurship can be developed through training. It states that training in management functions such as production, planning, people organising and budgeting, can help to reduce business failure substantially and thereby entrepreneurship can be promoted among people. It views entrepreneurship as an organising function, which involves assuming risk.

1.7.5 The Leadership School of Entrepreneurship

The leadership school of entrepreneurship proposes that entrepreneurs are leaders of people. They have the ability to adapt their style to the needs of people. An entrepreneur cannot achieve his goals alone rather depends upon others. This school proposes that a successful entrepreneur must be a ‘people manager’, an effective leader and a mentor who motivates, directs and leads others to accomplish set tasks.

1.7.6 The Intrapreneurship School of Entrepreneurship

Intrapreneurship school views that entrepreneurship is a response to lack of innovativeness and competitiveness within organisations. It is the development of independent units to create, develop and market services. Alertness to opportunities assumes significance. Intrapreneurs, having limited power within their organisations, act as entrepreneurs and implement their ideas though lack ownership.

1.8 Factors Affecting Entrepreneurship

According to Khanka (2009) and several other scholars, the emergence and development of entrepreneurship is not a spontaneous one, but dependent upon economic, social, political, psychological factors and other supportive conditions. These conditions may have positive or negative influences on the emergence of entrepreneurship. Positive influences constitute facilitative and conducive conditions leading to the origination and promotion of entrepreneurship, whereas negative
influences create an inhibiting milieu. Understanding these factors enable the promotional agencies to design suitable programmes / measures for entrepreneurship development. Sharma (1980) has classified the factors motivating the entrepreneurs into two types;

A. Internal factors such as desire to do something new, educational background, prior occupation / experience etc.

B. External factors which include government assistance and support, availability of labour and raw materials, encouragement from big business houses, promising demand for the product etc.

Sharma (1978) describing four stages of economic growth, viz., entry into manufacturing, expansion of business, perceived stability in business and commitment to sustained growth, argues that entrepreneurial growth is governed by three determinants, viz., need for achievement motivation, socio-economic background of entrepreneur (family occupation, caste, religion and region) and political milieu. The interaction of these two sets of factors (stages of economic growth and determinants of entrepreneurial growth) take place not in vacuum but with the existence of entrepreneurial prerequisites like material resources, entrepreneur’s vision and confidence to run an industry and the general infrastructure available. Using this model and an empirical analysis, Sharma (1978) suggests that ‘the family occupation is more effective for entry into manufacturing and that the political factors make positive contribution in the expansion of a unit at the third stage i. e. perception of business stability’.

In economics, traditional theory assumed that markets move towards equilibrium and it is entrepreneurs who cause disequilibrium when they innovate and create profit opportunities. According to this classical school of thought, the profit opportunities created by entrepreneurs are the cause of the disequilibrium, and it improves the incomes of all affected. In contrast, according to Kirzner (1983), it is not the entrepreneur who causes disequilibrium. To him, ‘entrepreneurship identifies market opportunities. The entrepreneur is the one who correctly anticipates where the next imperfection will be’. Entrepreneurship thus corrects socio-economic ‘wastes’ or inefficiencies. Kirzner stated that ‘entrepreneurship is unlikely to come
from the government or planned sector, because even when there is innovation, entrepreneurship will depend on profit motive’.

The factors affecting entrepreneurship are broadly classified into two- economic and non-economic factors.

1.8.1 Economic Factors

The economists view that entrepreneurship and economic development will take place in the situation of most favourable economic conditions. They argue that favourable economic factors such as supportive government policies, availability of infrastructural facilities, power, timely and adequate credit etc., are responsible for entrepreneurial growth. Economic factors affecting entrepreneurship include- financial / capital, labour, raw materials, market, infrastructure, know how, govt. policy etc.

1.8.1.1 Financial Resources

Capital is one of the prerequisites to establish an enterprise. It is the fundamental resource needed to acquire land, labour, machine, raw materials and so on and to perform production, assembling and distribution functions. Capital is the ‘lubricant’ to the process of entrepreneurship. Two types of funds are needed. They are long-term fund and short-term funds. Long-term finance is required to meet long-term expenditures like purchase of fixed assets while short-term funds help to meet working capital needs. In addition to own sources, governmental agencies, banks and other financial institutions etc., are essential to meet financial requirements of an entrepreneur. Lack of adequate and timely financial resources may discourage potential entrepreneurs from starting enterprise. It will also adversely affect the existing entrepreneurs in running or expanding / diversifying their enterprises. Adequate and timely capital supply tends to increase entrepreneurship.

1.8.1.2 Human Resources

Human resources are the basic elements needed to utilise all other elements of an enterprise. They represent one of the basic inputs needed for functioning of any organisation. The availability of adequate number of skilled and unskilled labour with efficiency, dedication and commitment, on a regular basis, is a must to run any
enterprise in both short and long run. The shortage of labour and the problems created by the existing labour force may adversely affect performance of any organisation.

1.8.1.3. Raw Materials

Timely and adequate supply of raw materials from proximate sources, on a continuous basis is highly helpful for entrepreneurship. The availability of raw materials can even be encouraging factor for a potential entrepreneur to start new enterprises or expand existing ones.

1.8.1.4. Market Opportunities

The potential of the market demand may influence entrepreneurial function. The size and composition of market can influence entrepreneurial orientations. Paul (1979) refers to Germany and Japan as the prime examples where rapid improvement in market was followed by rapid entrepreneurial appearance. Expanding markets with diversified opportunities have influence on entrepreneurship.

1.8.1.5 Governmental Initiatives

The government by its actions or failure to act also influences entrepreneurship. Speedy, transparent and efficient bureaucratic machineries may encourage potential entrepreneurs to start an enterprise. A pro-development oriented government can help, through its consistent and clear policies and decisions, promote entrepreneurship. By creating basic facilities, utilities and services and by granting incentives and concessions, government can provide a facilitative socio-economic setting for the prospective entrepreneurs. Such an encouraging environment may minimise the risks which the entrepreneurs are to encounter.

1.8.1.6 Basic Public Utilities

The Committee appointed by Ministry of Industrial Department of Small and Medium enterprises by Govt. of India in 1973 stresses the importance of infrastructural development, to be set up by government. The Committee suggested that ‘the establishment of such facilities should be considered as the first step towards entrepreneurial development’. Entrepreneurship development requires
certain basic utilities like availability of water, electricity, telecommunication facilities, and transportation facilities. These provide external economies and improve the efficiency of investments made by entrepreneurs. Land and factory sheds at concessional rates, adequate supply of power, water, coal, and other sources of energy etc., should be provided to encourage the potential entrepreneurs to set up enterprises. Power is required to run the machineries and other production equipment. Good quality roads enable to access even distant markets, both to procure raw materials and to supply finished products, faster and more efficiently. Quicker access to rural and semi-urban markets enables entrepreneurs to expand their market size. Landes (1969) holds that ‘improvements in transportation are more beneficial to heavy industry than to light industry because of their effects on the movements of raw materials’.

1.8.1.7 Training and Development Programme

Training and developmental programmes help a potential entrepreneur to enter into entrepreneurship and to remain updated about the changes in laws etc., affecting enterprises. Studies have argued that assistance programs and networks for developing entrepreneurship are useful for enhancing business capability of individuals. They provide support, motivation, counselling and information on facilities opportunities and resources. Entrepreneurs can be developed through educational and short-term training programmes.

1.8.1.8 Supportive / Promotional Institutions

The supporting institutions have a significant role in the development of entrepreneurship in general and small entrepreneurship in particular. ‘The firms getting support services like financing, training, technical, extension and consultancy, information etc., from public or private agencies showed significant rise in sales, employment and productivity’ (Yusuf 1995). The importance of government support to small business success is reported in a number of studies. The smallness acts as a constraint in creating certain facilities within a firm. For instance, installing expensive processing machines / equipment, investing in extensive research and development facilities etc., may be beyond the financial reach of small entrepreneurs. Services of promotional agencies, institutions engaged
in research and development, institutions with core competence on specific functional areas, etc., will help micro and small entrepreneurs in the various stages of entrepreneurship. The banking institutions, specialised lending agencies like state finance corporation, small industries development corporations etc., also promote entrepreneurship in a region.

1.8.2 Non-Economic Factors

Sociologists and psychologists advocate that economic factors may be necessary conditions, but they are not sufficient for the appearance of entrepreneurship. The non-economic factors include socio-cultural and psychological factors.

Weber (1904) has identified the influences of social environment on entrepreneurship development. Social theorists argue that the source of entrepreneurial behaviour lay in the structure of societies and the values they produce. Sociologists view that entrepreneurship originates under a specific social culture. Social sanctions, cultural values etc., are responsible for the emergence of entrepreneurship. Weber, in his work ‘The Protestant Ethic and the Spirit of Capitalism’, argues that entrepreneurial features have caused the great development experience in the Western world. He elaborated on how religion, the caste system, and the family system affected the emergence of entrepreneurship in India. According to Cochran (1949) ‘the entrepreneur represents the society’s model personality. His performance as a businessperson depends upon his own attitude towards the occupations, the expectations of sanctioning groups and the operational needs of occupation. Values are the most important determinants of the abilities and role expectations’. Cultural and social norms are emphasised as the major strength of entrepreneurial orientation and seem to be the differentiating factor for higher levels of entrepreneurial activity (Minniti and Bygrave 2003). Davidsson and Wilkund (1997) suggested that the most obvious source of the variations in the levels of entrepreneurship is cultural values and cultural context. The socio-cultural factors include socio-cultural norms and values, family background, caste system, parental occupation, education and technical qualification, social mobility, social marginality, security etc.
1.8.2.1 Norms and Values

A society sets certain norms and values, including certain restrictions, for the behaviour of its people. Social environment may force people to accept certain types of jobs and tasks. The openness and flexibility, degree of approval / disapproval granted on entrepreneurial behaviour influences its emergence and characteristics. While Schumpeter (1939) recognises the importance of such legitimacy in terms of appropriate social climate for entrepreneurship, Cochran (1949) calls it cultural themes and sanctions. To increase legitimacy of entrepreneurship, there is a need for change in those values, which are opposed, to entrepreneurship. Entrepreneurship will be more likely to emerge in setting in which legitimacy is high. However, there are others who took the opinion that entrepreneurship can emerge even when entrepreneurial legitimacy is low or even negative, provided that the Govt. actions can overcome negative orientations (Hoselitz 1960).

1.8.2.2 Family Background

It includes factors such size, type, composition and economic status of family. Family is the basic unit of a society. An entrepreneur basically needs money to start and run an enterprise. He also requires moral support to take the risks associated with initiating an entrepreneurial venture. Beliefs, family occupation, education and job status of family members etc., influence entrepreneurship. Families with enough properties in the form of land and building and having sound financial resources can help an entrepreneur immensely. A family with traditionally business background will pass on an entrepreneurial culture to its successors. The families, which provide constant encouragement and support for entrepreneurship, may produce more number of entrepreneurs.

1.8.2.3 Caste System

Certain religions and castes encourage the growth of entrepreneurial talent. While others with their negative ideologies tend to restrict entrepreneurship among its followers. In India, religious communities like Marwaris and Sindhees have displayed great passion for entrepreneurial activities.
1.8.2.4 Parental Occupation

Individuals with entrepreneurs as their parents, tend to follow the path of entrepreneurship. Because, right from the childhood, they will familiarise with enterprises, get in touch with other entrepreneurs, get opportunity to manage enterprise, deal employees, customers and so on. Early exposures to entrepreneurial activities may motivate them to become an entrepreneur as they grow.

1.8.2.5 Education and Technical Qualification

Education and entrepreneurship seems to be interrelated. Education is one of the best means of developing man’s resourcefulness. It is expected that the high level of education may enable the entrepreneurs to exercise their entrepreneurial functions more effectively and efficiently. Educated persons tend to show more preparedness to manage risks and hurdles that may arise in life.

1.8.2.6 Social Mobility and Social Pressures

It involves the degree and nature of mobility, both social and geographical, in a system. Some hold the view that a higher degree of mobility is conducive for entrepreneurship. Both Hoselitz’s (1960) need for ‘openness’ of a system and McCelland’s (1961) need for ‘flexibility’ in role relations imply the need for mobility within the system, for entrepreneurship development. However, according to Khanka (1990) the degree and nature of social mobility alone is not likely to influence entrepreneurship but its influence is largely determined by other non-economic factors. Hagen (1968) views that lack of mobility promote entrepreneurship. The channel in which creative energies will flow depends in part on the degree to which other possible channels are blocked. Hence, ‘minorities would find compensation for diminished social status in entrepreneurial achievement’. Where people are marginalised, it imposes a lot of restrictions, and then it is likely to backfire. Social pressures encourage people to prove their abilities and establish their identity. Young (1971) found that entrepreneurship occurs when a group has a low status, and has been denied access to mainstream society but still has more resources than the other marginal groups.
1.8.2.7 Security

Several scholars have advocated entrepreneurial security as an important facilitator of entrepreneurial behaviour. While Cole (1959) suggests minimal security, McCelland (1961) speaks of ‘moderate’ certainty. Peterson and Berger (1971) maintain that entrepreneurship is more likely to emerge under conditions of equilibrium. Redlich (1958) provides the middle position in this regard when he suggests that ‘insecurity does not hinder entrepreneurship, but rather different kinds of insecurity will result in different kinds of entrepreneurship. If the individuals are fearful of losing their economic assets or of being subjected to various negative sanctions, they will not be inclined to increase their insecurity by behaving entrepreneurially’.

1.8.2.8 Cultural Factors

Culture refers to the customary practices and beliefs that have a significant impact on the basic values, perceptions, preferences, and behaviours of people. A growing body of literature supports the argument that national culture influences economic behaviours, including managerial behaviour and entrepreneurship.

1.8.2.9 Role Models

Successful businessmen serve as the role models for potential entrepreneurs. Dhirubai Ambani, Ratan Tata etc., are considered as role models for many entrepreneurs. In India, states like Maharashtra, Gujarat, Tamil Nadu etc., are blessed with several successful entrepreneurs whose presence have caused to attract more persons to entrepreneurship in those States. ‘The presence of experienced and successful entrepreneurial role models in a community convey a message to the potential entrepreneurs that business is an attractive career option’ (Zapalska 1999, 5-21).

1.8.3 Psychological Factors

Psychologists view that entrepreneurship is an outcome of certain supportive psychological characteristics. Psychological theories argue that personality factors such as attitude, determination etc., lead a person to become an entrepreneur.
1.8.3.1 Need for Achievement

According to McClelland (1961) entrepreneurs are those who have a strong need for achievement. The high need for achievement motivate the people to undertake entrepreneurial activities and a society with a generally high level of achievement will produce more rapid economic development. Therefore if the level of ‘need achievement’ in a society is relatively high, it can expect a relatively high amount of entrepreneurship development in that society.

1.8.3.2 Withdrawal of Status Respect

Hagen (1962) presented a personality theory according to which ‘a person who had enjoyed social standing at some stage in his past, falls into a ‘retreat’ phase with an urge to regain that lost status, emerges as entrepreneurial personality’. He attributed the withdrawal of status respect of a group to the genesis of entrepreneurship. After giving a brief sketch of history of Japan, he concludes that ‘she developed sooner than any non-western society except Russia due to two historical differences. First, Japan had been free from ‘colonial disruption’ and secondly the repeated long continued withdrawal of expected status from important groups (Samurai) in her society, drove them to ‘retreatism’ which caused them to emerge alienated from traditional values with increased creativity’. Hagen believes that the initial condition leading to eventual entrepreneurial behavioural is the loss of status by a group.

1.9 Entrepreneurship in MSMEs

According to Diamond (1957), entrepreneurship is equivalent to enterprise which involves the willingness to assume risks in undertaking an economic activity, particularly a new one. Entrepreneurship refers to a process of action and an entrepreneur undertakes to establish an enterprise. Though entrepreneurship can be initiated in different scales of operation, for a developing country like India, MSMEs assume greater significance.

MSME sector can be considered as the backbone of the modern day economy. It represents a stage in the economic transition from traditional to modern technology. MSME sector is the engine of faster economic growth. Because of their locational flexibility, MSMEs can be used for rapid industrialisation across rural and urban
areas. Kerala Government’s Industrial Policy 2011 states that ‘creating and nurturing SMEs would be the path to make Kerala a growth oriented enterprising society’.

They encourage growth of local entrepreneurship and thereby create a decentralised pattern of ownership and avoid concentration of economic wealth among a few and results in equitable distribution of income and wealth. They also serve as seed beds of entrepreneurship. They act as nursery of entrepreneurial and managerial skills. MSMEs enable skilled technicians and young entrepreneurs to set up their own business with limited financial resources.

They are dealing with economic activities involving buying, selling goods and services along with engaging in other business functions on small and medium scale. They serve the consumers and meet the needs of other businesses. They foster diversification of economic activities by introducing innovative products particularly to cater the local needs and thereby improves standard of living of local people.

They utilise locally available raw materials, skills and technologies. Thus inclusive socio-economic growth can be achieved and thereby unrest and social tension / conflicts can be reduced in the regions.

MSMEs form the fulcrum of job creation and income generation in many developing economies. MSMEs provide increased employment through labour intensive process. During the 1970s the small businesses created more than six million new jobs for Americans. At the same time ‘Fortune 500’ firms cut employment by nearly 10 per cent, for a net loss of more than a million jobs...Between 1980 and 1987, 66 per cent of all new jobs in the United States were in the firms with fewer than 1000 employees generating less than $10 million in annual sales\(^1\). They have high labour to capital ratio. High growth and high dispersion make them crucial for achieving the objective of inclusive growth\(^2\). The employment intensity of the segment (registered units) is one person for ₹1.49 lakh invested in fixed assets, as against 1 person per ₹5.56 lakh in the large organised

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sector\(^3\). Thus they promote production and exports with comparatively lesser investment.

As per the 4\(^{th}\) Census of MSME sector (2011), in India, MSME sector employs 59.7 million persons spread over 26.1 million enterprises and in terms of value, the sector accounts for about 45 per cent of the manufacturing output and around 40 per cent of the total exports. MSMEs contribute about eight per cent of the GDP of the country.

**1.10 Regional Disparity and Influences on Entrepreneurship**

The term disparity can be defined as the condition or fact of being unequal in respect of status, rank or degree. It is also expressed by the terms like inequality, unlikeness, disproportion and difference.

Myrdal (1957) and Hirschman (1958) have explained regional disparities with the help of terms like ‘backwash vs. spread effects’, ‘polarisation vs. trickling down effects’. In his Cumulative Causation Hypothesis, Myrdal points out that the play of market forces normally tends to increase rather than decrease the inequalities between competing regions. Hirschman stressed the tendency of ‘polarisation’ of free market forces to increase inter-regional inequalities and advocated for government intervention.

Report of Fourth All India Census of MSME recognises regional disparity in entrepreneurial development in as follows-‘The Policy of Reservation of Products for Exclusive Manufacture in SSI (now MSEs)’ was initiated in 1967 with the objective of achieving socio-economic development, through development and promotion of small units all over the country. This was expected to result in countering the challenges of regional industrial imbalances, employment generation through self-employment ventures, increased productivity etc. Uneven distribution of basic resources needed for industrial development may lead to concentration of industries in a few centres, causing regional disparities in entrepreneurial development.

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\(^3\) Working Group on Micro and Small Scale Enterprises and Agro & Rural Industries for the Eleventh Five Year Plan. 2006. Govt. of India.
Several research studies have stressed that regional socio-economic factors support or hinder entrepreneurship. ‘The behaviour of individual entrepreneurs and the socio-economic and political infrastructure promotes or hampers the creation and development of entrepreneurship’ (Sexton and Smilor 1989). Existing theories demonstrate the inseparability of the external environment from the entrepreneurial process.

Socio-economic characteristics of region have an important influence on emergence and development of entrepreneurship. As per Weber’s model\(^4\) (1909), three factors influence industrial location. These are transport, labour costs and local factors of agglomerative or deglomerative forces. Schmenner (1982) points that site and plant difficulties such as higher labour costs and unfavourable labour climate guide enterprise location decisions. ‘Not only the direct labour cost, but the quality, productivity and manageability of labour also influence industry location decisions’ (Storper and Walker 1989).

Governments can influence the market mechanisms and make them function efficiently by removing conditions that create market imperfections and administrative rigidities and create an ‘enterprise culture’ that enables firms to take reasonable risks and seek profits. Socio-economic factors may be as important as the availability of loans, technical assistance, physical facilities and information. Entrepreneurship may not prosper if most members of the society view it with suspicion. The existence of various environmental conditions increases the chances of emergence and growth of businesses in a country. Though a single factor may have less impact, the interaction of various factors may considerably increase the impact on entrepreneurial development and growth. A key role of the entrepreneurial environment is to help entrepreneurs to develop and grow entrepreneurial firms that will meet consumers’ demands and have a positive effect on the economy through increasing number of jobs available and improving the standard of living.

\(^4\) Weber, enunciated a theory of industrial location, using deductive approach, in 1909. He analyzed the factors that determine the location of industry as (i) Primary causes of regional distribution of industry (regional factors) and (ii) Secondary causes (agglomerative and deglomerative factors) that are responsible for redistribution of industry.
The internal factors such as size and years in business, the ability to magnetise financing, marketing and human resource and external factors such as sales tax rates, infrastructure, market condition, business opportunity, and availability of resources, economic conditions, competition, and government regulation are determinants of business success (Rogoff et al. 2004). Location of business also influences business success (Kallerberg and Leicht 1991). Entrepreneurs choose industrial location based on the potential for higher earnings and availability of various inputs needed for enterprise promotion and development. Availability of land, nature and quality of raw materials, transportation facilities, quantity and quality of human resources, infrastructural facilities, finance and government policies etc., are some of the factors influencing industrialisation in a particular region. There are three approaches for industrial location viz., Geographical Approach, Economical Approach and Integrated Approach. Geographical Approach views the decision of industrial location is based on pattern of land, physical features, nature and physical divisions, climate, production and population. Economical Approach considers least cost (raw materials cost, transportation cost, labour cost), market and profit. Integrated approach is a combination of both geographical and economic approaches.

Different research studies were undertaken and several theories were suggested to explain duality of development and economic backwardness. However, none of the studies had covered disparity in entrepreneurship in MSMEs in the northern and Southern Regions of Kerala with a focus on socio-economic factors affecting entrepreneurs. Under this background the present study analyses whether or not regional differences exist in entrepreneurship in MSMEs in the northern and Southern Regions in Kerala.

1.11 Conclusion

This chapter has explained theoretical perspectives of an entrepreneur and entrepreneurship. The economists view that entrepreneurship and economic development will take place in the situation of most favourable economic conditions. The interplay of factors like favourable, timely and appropriate government policies and quick adaptability by the enterprise are responsible for the all-round growth of entrepreneurial talent. Sociologists view that entrepreneurship
emerges under a specific social culture. Social sanctions, cultural values etc., are responsible for the emergence of entrepreneurship. The economic factors affecting entrepreneurship include- financial factors, raw material factors, labour factors, market, government factors, other infrastructural factors and supportive institutions. The non-economic factors include cultural, social and psychological factors. The social factors include family background, caste system, parental occupation, education and technical qualification socio-cultural norms and values, social mobility, social marginality, security etc. Psychological factors include personality factors related factors. Among these factors in a regional context, demographic and socio-economic factors assume great significance. The emergence and growth of entrepreneurship is more dependent on regional factors. It includes favourable / supportive socio-economic factors which promote the entrepreneurship. Hence, the present study examines the regional differences in entrepreneurship in MSMEs in the northern and southern regions of Kerala.